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IDEAS ON LIBERTY

The Writings of Adam Smith

The Other Side of Adam Smith

Soviet Admissions: Communism Doesn't Work

The Failures and Fallacies of Foreign Aid

FEBRUARY 1990

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PERSPECTIVE

The Freedom Rule

Economically our country, and much of the world, is in better condition than at any time since World War II. We have not had anything comparable to the Great Depression in half a century and have avoided a repetition of World War II for more than four decades. Econometric data show the cyclic nature of business, but it is flourishing at present. Despite this good overall picture, we have a problem that is perhaps best expressed by Leonard Read's acronym LOOT: living off others thoughtlessly. We have a massive transfer economy imposed by government whereby money is taken from groups of people (generally taxpayers) and given to other groups. Let us follow not only the Golden Rule but also the Freedom Rule: Do not force others to do for you what you would not wish others to force you to do for them. Living by these rules would improve ourselves, our community, and our country.

—WILLIAM J. ELLENBERGER, Washington, D.C.

The Soviet Future

Marxism is wrong—for a variety of reasons, but most importantly because Marx never appreciated the role individuality has in human life. He was a thoroughgoing collectivist who said, "The human essence is the true collectivity of man." This is dead wrong. Man is by nature both human and an individual, a self-developing, choosing, diverse creature. This is not part of the Marxist-Leninist ideology. And since it is not, Soviet leaders make no plans for this in their conception of the future. They think you can have a little taste of freedom, for practical purposes, and then return to totalitarianism. But that will not work.

— TIBOR R. MACHAN, Auburn University

On Discrimination

American law has ruled that minorities and women are what they always were in the eyes of God—equal, as to basic human rights—but common sense tells us that every person is different as to talents, qualifications, character, etc. It is ludicrous for civil rights activists to expect applicants to be hired because of their race or gender alone. As a woman, I have no desire to simply

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satisfy a quota on someone's spreadsheet, but rather to fill a position because I happen to be best suited for the job. If in the workplace I am an equal, then I should be prepared to be judged according to the same standards as all other applicants and hired because of my qualifications, not in spite of them. This same line of thought would hold for racial minorities as well. Being a woman, or black, or Asian, or WASP male, for that matter, should not make or break a prospective employee.

—ELLEN GILLETTE, Fort Pierce, Florida

Projections Without Prices Don't Come True

Projections based on "if present trends continue" are usually wrong. Such projections depend on "baseline data" that are often drawn from too short a period. Baseline data on racquetball court construction in the early 1980s, for example, would predict that the entire earth would be covered with racquetball courts by the year 2010. And nature is even less linear. Height projections, for example, based on a baby's growth rate up to age two, would predict teenagers 20 feet tall.

Projecting U.S. forest depletion based on logging rates in the late 1800s would predict that the last tree would have fallen years ago. But projections based on logging and growth rates in the late 1900s would predict that forests would cover every square inch of America in the next century.

Projections of future resource scarcity go off the mark when they fail to include: 1) the effects of future prices on the supply of and demand for that resource, and 2) the effects of new technology—developed in response to higher prices—to find, conserve, recycle, or discover substitutes for that resource.

The difficulty of accurately forecasting future resource scarcity is not new. According to economists Charles Maurice and Charles W. Smithson, "Forecasts of doom and gloom have existed for as long as civilization has existed. The important fact is, however, that all of these forecasts of doom have been wrong. No civilization has collapsed due to the depletion of a resource. Instead, freely functioning markets with people acting in their own self-interest have eliminated the shortages." (*The Doomsday Myth*, Hoover Institution Press, 1984)

—GREGORY F. REHMKE, writing in the April 1989 issue of *Econ Update*.

The Essence of the Market

After several decades of uninterrupted government programs in Bolivia, we are forced by events to recognize that this state of affairs must be halted. Another policy must be adopted to permit economic freedom and private initiative to develop fully and to be transformed into the "engines" of social and economic development. Private enterprise in our country has developed under a system of economic restriction in which government intervention distorts the economy and limits the freedom of the market.

In those countries where the free market has flourished, everyone—the entrepreneur, the professional, the worker, the butcher, the baker, the plumber, the policeman, the bureaucrat—eats well and dresses well. They can count on having essential services, travel by various means, participate in world events through the communication media. And finally they have access to all those benefits which make their and their family's lives more comfortable.

The essence of the free market system is freedom—freedom to imagine, to think, to discover, to produce, to buy and sell, to own property, to be, and to believe. This freedom is the basis of the system of justice which permits every individual to attain what he wants, to pursue his goals, and to gain by his own efforts. Under this system neither total nor interventionist government is called for; all that is needed is for the legal body to see that the rights and obligations of each individual are respected. Under this system acting individuals may efficiently carry out the basic market function, that is to cope with scarcity and transform it into abundance. This is why the free market is necessary if our country is to be strengthened.

—from an editorial in *Mundo Empresario*, Santa Cruz, Bolivia. Translated by Bettina Bien Greaves.

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The Writings of Adam Smith

by Julio H. Cole

Two centuries after his death in 1790, Adam Smith is still justly regarded as the single most towering figure in the history of modern economics. His celebrated work on *The Wealth of Nations* captured the spirit of industrial capitalism, and presented its theoretical rationale in a form which dominated the thinking of the most influential political economists of the 19th century and which continues to inspire free market advocates to this day.

However, though few people would question the importance of Adam Smith for the history of economics, it is also important to realize that he was not merely (or even primarily) an economist—the field had not yet developed into an independent discipline in his time—and he himself regarded his *Wealth* as only a partial exposition of a much larger work on "the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society," which he hoped to write but never completed in his lifetime. Moreover, even in *The Wealth of Nations* it is evident that Smith's conception of economic science encompassed much more than today's "core" fields of price theory, production and distribution, money and banking, public finance, international trade, and economic growth, each of which is regarded today as a specialty in itself. These topics are of course discussed at length in Smith's book, but it also includes detailed excursions into fields as diverse as ecclesiastical history, demographics, educational policy, military science, agriculture, and colonial affairs. Indeed, the sheer catholicity of his interests, embracing not only economics, ethics, political philosophy, and jurisprudence, but also literature (ancient and modern), linguistics, psychology, and the history of science, must seem staggering to the modern specialist, but no less staggering is the analytical depth which he applied in all his studies.

Professor Cole teaches in the Economics Department at the Universidad Francisco Marroquin in Guatemala.

Early Life

Adam Smith was born in 1723 in Kirkcaldy, Scotland, the posthumous son (by a second marriage) of Adam Smith, comptroller of customs, and Margaret Douglas. The exact date of his birth is unknown, but he was baptized on June 5, 1723, and this date is often mistakenly taken as his birthdate. Little is known about his childhood, except that at the age of 4 he was kidnapped by a band of Gypsies, though prompt action by his uncle soon effected his rescue. "He would have made, I fear, a poor Gypsy," commented John Rae, his main biographer. Apart from this incident, Smith's life was singularly quiet and uneventful, and his story is essentially that of his studies and his books.[1]

In 1737, at the age of 14, having finished his term at the Kirkcaldy Grammar School, Smith entered the University of Glasgow, whereupon he came under the strong influence of "the never to be forgotten" Francis Hutcheson, the famous professor of moral philosophy. Upon his graduation in 1740, Smith won an important scholarship (the Snell Exhibition) to Oxford, studying for six years in Balliol College. However, the intellectual atmosphere at Oxford at the time was lax and disappointing (". . . the greater part of the public professors [at Oxford] have . . . given up altogether

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even the pretence of teaching," and ". . . it will be his own fault if anyone should endanger his health at Oxford by excessive study. . . .").[2] These years were devoted largely to a program of self-education in which he read widely in both classical and modern literature and philosophy.

Returning to his mother's home in 1746, Smith cast about for suitable employment, and meanwhile continued his studies. In 1748 he went to Edinburgh, where, under the sponsorship of Lord Henry Kames, he gave for three years a series of public lectures on rhetoric and belles lettres. In 1751, on the basis of this performance, he was called to his own University of Glasgow, first as professor of logic, and shortly after as professor of moral philosophy. The latter position he held for 12 years, a time which he later described as "by far the most useful, and therefore by far the happiest and most honorable period of my life."

His course was divided into four parts: natural theology, ethics, jurisprudence, and political economy. In 1759 he published his first book, *The Theory of Moral Sentiments*, which embodied the second portion of his course, and which almost immediately established his scholarly reputation. In 1761 he published an essay on "The First Formation of Languages" which was included as an appendix in later editions of the *Moral Sentiments* (six editions were published during Smith's lifetime).

In 1763 Charles Townshend offered Smith a lifetime pension in return for acting as tutor to his stepson, the Duke of Buccleuch, on a three-year tour of France. Smith thus gave up his professorship and embarked on his only trip abroad, in the course of which he met Voltaire in Geneva, and associated with Turgot, Quesnay, and other French *encyclopedistes* during his stay in Paris. In 1766 the sudden illness and death of Hew Scott, the Duke's younger brother, also in Smith's charge, cut short the continental sojourn and forced a hasty return to England.

The Wealth of Nations

For the next seven years Smith lived with his mother at Kirkcaldy, and devoted most of his time to his *Wealth of Nations*. This period too he described as a happy one ("I was never, perhaps, more [happy] in all my life.") In 1773 he traveled to London, taking his manuscript with him, and apparently fearful for his health, named his friend David Hume as his literary executor, with instructions to publish in the event of his death his early essay on the "History of Astronomy," which was apparently part of an earlier grand project of "a history of the liberal sciences and elegant arts." (As it turned out, however, Hume died first, in 1776.)

For the next five years he lived in London, and his close friends included Edward Gibbon and Edmund Burke. In March 1776 *The Wealth of Nations* was published and was an immediate and lasting success: the first edition was exhausted in six months, and in Smith's lifetime the book went through five editions (1776, 1778, 1784, 1786, and 1789). Also, within three decades it had been translated into at least six foreign languages: Danish (1779-80), three French versions (1781, 1790, and 1802), German (1776-78), Italian (1780), Spanish (1794), and Russian (1802-06).

The only other work published by Smith in his lifetime, apart from two articles on literary subjects written for the *Edinburgh Review* in 1755, was his "Letter to [William] Strahan" on the death of David Hume.[3] His unqualified praise of his dear friend's moral qualities raised a storm of protest throughout Britain. As Smith was later to note: "A single, and . . . very harmless sheet of paper . . . brought upon me ten times more abuse than the very violent attack I had made upon the whole commercial system of Great Britain."

In 1778 Smith was appointed Commissioner of Customs for Scotland, and held that post until his death, dwelling with his mother and his cousin, Miss Janet Douglas, in Edinburgh. In 1787 Smith was elected Lord Rector of Glasgow University, and served until 1789. On July 17, 1790, full of honors and recognition, Smith died at the age of 67.

Prior to his death, Smith had ordered the destruction of most of his unpublished manuscripts, among which were probably his lectures on natural religion and jurisprudence, and his early lectures on rhetoric. Most of this material was thus probably lost forever, though part of it has since been recovered indirectly in the form of students' notes taken in the early 1760s.

In 1795, Smith's literary executors, Joseph Black and James Hutton, edited and published a collection of *Essays on Philosophical Subjects*, which included the aforementioned essay on the history of astronomy. The most well-known modern edition

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of these essays is that by J. R. Lindgren (ed.), *The Early Writings of Adam Smith* (New York: Kelley, 1967), which also includes the essay on the formation of languages.

Lecture Notes

The story of Smith's writings does not end here, however. In 1895, Professor Edwin Cannan was alerted to the existence, in the hands of an Edinburgh lawyer, of a manuscript which he identified as the lecture notes, taken by a student, of a course on jurisprudence delivered by Smith some time before his French voyage. (Later scholars have established that the lectures were delivered in the portion of the 1763-64 session which preceded Smith's departure.) Cannan edited these notes and published them as *Lectures on Justice, Police, Revenue and Arms, delivered in the University of Glasgow by Adam Smith* (Oxford: Clarendon, 1896).

In 1929, the Clements Library of the University of Michigan acquired a collection of papers which had belonged to Alexander Wedderburn, among which was an item which Professor G. H. Guttridge identified as a memorandum on the "American problem" written by Smith in 1778. This material was edited by Guttridge and published in the *American Historical Review*, 38 (1933), pp. 714-20.

Finally, two additional sets of student notes were discovered by Professor John M. Lothian in 1958. One of these related to Smith's course of lectures on rhetoric and belles lettres, as delivered at Glasgow in the 1762-63 session. These notes were edited by Lothian and published as *Lectures on Rhetoric and Belles Lettres* (London: Nelson, 1963). The second set of notes, relating to Smith's course on jurisprudence as delivered in the same session, was not published until 1978, as part of the *Glasgow Edition of the Works of Adam Smith.*

In our age of over-specialization, no one can help but be impressed by the range and depth of Smith's scholarship, a truly great embodiment of the spirit of the Scottish enlightenment. However, much as we must admire his many accomplishments in so many fields, there is no denying that posterity has chosen to remember him mainly for his contributions to economics, and his fame will always rest foremost on his masterpiece, *The Wealth of Nations*. Though written in English in the 18th century, it now belongs to the world and to all times. Smith took economics forever beyond the narrow mercantilistic framework which denied the gains from trade between nations, and made of it a study of the spontaneous and largely unintended social order which arises from free exchanges between individuals, exchanges which produce benefits for all parties involved, whether domestic or foreign. For as long as the love of liberty survives in this world, free men will continue to derive inspiration from Adam Smith, author of *The Wealth of Nations.* □

1. John Rae, *Life of Adam Smith* (London: Macmillan, 1895; reprinted, New York: Kelley, 1965), p. 5. See also William R. Scott, *Adam Smith as Student and Professor* (Glasgow: Jackson & Son, 1937), pp. 22-25. These two books are still the standard sources of biographical information on Smith's life. A good modern biography is that of E. G. West, *Adam Smith: The Man and His Works* (Indianapolis: Liberty Press, 1976).

2. Adam Smith, *The Wealth of Nations*, Cannan edition (New York: Modern Library, 1937), p. 718, and *Correspondence of Adam Smith*, E. C. Mossner and I. S. Ross, eds., (Oxford University Press, 1987), p. 1.

3. First published in 1777, and subsequently reprinted in most editions of Hume's *Essays*, most recently in *Essays—Moral, Political, and Literary*, ed. Eugene F. Miller (Indianapolis: Liberty Classics, 1987), pp. xliii-xlix.

Editors' Note: Professor Cole has prepared a layman's guide to the scholarly literature surrounding the work of Adam Smith. If you would like a copy, please contact The Foundation.

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The Other Side of Adam Smith

by William B. Irvine

Adam Smith has suffered the fate that often befalls the creator of a new "ism": We no longer regard him as a mere mortal, but instead take him to be the embodiment of the doctrine he espoused. Many would like to think of Adam Smith as a one-dimensional, all-purpose capitalist.

If the truth be known, though, Smith had another side that some will find shockingly anti-capitalistic. Nowhere does this "other side" come through more clearly than in Smith's *Theory of Moral Sentiments* (see especially Chapter 1 of Part IV). In this work, published 17 years before his better-known *Wealth of Nations*, Smith is more interested in philosophy than in economics; and in it he questions what many would take to be basic tenets of capitalism.

Smith, to begin with, questions whether material wealth, which capitalism produces so efficiently, is worth possessing: "Power and riches appear . . . to be, what they are, enormous and operose machines contrived to produce a few trifling conveniencies to the body." The machines in question consist "of springs the most nice and delicate, which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor." He reminds us that poverty—i.e., the absence of power and riches—has its advantages: ". . . the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for."

Capitalism, as Smith well knows, is prodigious when it comes to supplying consumers with an endless stream of gadgets. Smith suspects, though, that little good can come of them: "How many people ruin themselves by laying out money on trinkets of frivolous utility?" "All their pockets," he tells us, "are stuffed with little conveniencies . . . . They walk about loaded with a multitude of baubles . . . , some of which may sometimes be of some little use, but all of which might at all times be very well spared, and of which the whole utility is certainly not worth the fatigue of bearing the burden."

By way of illustration, Smith tells us that "A watch . . . that falls behind above two minutes in a day, is despised by one curious in watches. He sells it perhaps for a couple of guineas, and purchases another at fifty, which will not lose above a minute a fortnight." There is a bit of a paradox in this, though, since after obtaining the new watch, the person in question "will not always be found either more scrupulously punctual than other men, or more anxiously concerned upon any other account, to know precisely what time of day it is." What has happened, of course, is that the owner of the watch has become more concerned with the watch itself than with his reason for buying a watch in the first place. Anyone who has ever traded up to a better stereo, car, or food processor knows the feeling.

Smith then describes for us the life of "the poor man's son, whom heaven in its anger has visited with ambition . . . ." This son admires the condition of the rich, and soon finds himself longing for a palace, a carriage, and servants; and to obtain them, he "labours night and day to acquire talents superior to all his competitors." Indeed, to obtain

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the "conveniencies" of being rich, "he submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his life from the want of them." Consider, along these lines, the fate of the first-year law student or of the entrepreneur who puts in 80-hour weeks in his attempt to start a new business.

Smith concludes his tale of the poor man's son as follows: "Through the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at, for which he sacrifices a real tranquility that is at all times in his power, and which, if in the extremity of old age he should at last attain to it, he will find to be in no respect preferable to that humble security and contentment which he had abandoned for it." Smith would presumably not find it surprising that many Americans are willing to spend 50 weeks engaged in what is often unpleasant employment so that they can spend two weeks of "artificial and elegant repose" at some beach or mountain resort.

According to Smith, the retirement of the ambitious man is not one to be admired: "It is then, in the last dregs of life, his body wasted with toil and diseases, his mind galled and ruffled by the memory of a thousand injuries and disappointments which he imagines he has met with from the injustice of his enemies, or from the perfidy and ingratitude of his friends, that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility."

Intimations of Thoreau

I cannot read the above passages without thinking of Henry David Thoreau, whom many would take to be the polar opposite, philosophically speaking, of Adam Smith. A century after Smith, Thoreau told us that the mass of men lead lives of quiet desperation and asked, "Why should we be in such a desperate haste to succeed, and in such desperate enterprises?"

Like Smith, Thoreau doubts that wealth can bring happiness and thinks that men's labors tend to be in vain. "The twelve labors of Hercules," he tells us, "were trifling in comparison with those which my neighbors have undertaken; for they were only twelve, and had an end." He continues in the same vein: "How many a poor immortal soul have I met well nigh crushed and smothered under its load, creeping down the road of life, pushing before it a barn seventy-five feet by forty, its Augean stables never cleansed, and one hundred acres of land, tillage, mowing, pasture, and wood-lot!" This is but one passage from *Walden* that would have blended perfectly into the text of *The Theory of Moral Sentiments*.

What are we to make of all this? Some might be tempted to deny that Adam Smith wrote the words I have attributed to him. Others might suggest that perhaps there were in fact *two* Adam Smiths, one (a capitalist) who wrote *The Wealth of Nations* and the other (a proto-Marxist) who wrote *The Theory of Moral Sentiments*. Yet others might pass off *The Theory of Moral Sentiments* as a youthful indiscretion on the part of Smith, and hold him to have later outgrown the views he expressed there.

I would like to suggest, though, that the writings of Smith in *The Wealth of Nations* and *The Theory of Moral Sentiments* are not as inconsistent as they might appear to be. Indeed, I would like to suggest that those who claim that they are inconsistent are confused about the essential nature of capitalism.

Notice, in the first place, that economics, insofar as it pretends to be a science, should be value-neutral. It is not the economist's job to tell us what we should want or what we should do; rather, it is his job, once we have told him what we want, to tell us how best to get it. Thus, it is not his job to tell us that we should reduce the unemployment rate; instead, it is his job to tell us how best to do this, once we have decided it is worth accomplishing. Likewise, it is not the economist's job to tell us that we should take steps to guarantee every worker a minimum wage; instead, it is his job to point out to us the undesirable consequences (i.e., undesirable according to *our* values) of our taking such steps.

To be sure, most economists occasionally make pronouncements on "what we should do." We should realize, though, that when they engage in this sort of behavior, they have temporarily set aside the mantle of the scientist and put on the mantle of, say, the philosopher. We should listen to what they have to say, but we should be skeptical about the claims they make. (Let me add that we should likewise be skeptical whenever a philosopher presents us with economic forecasts.)

Seen in this light, there is nothing inconsistent about Adam Smith, in his role as economist, telling

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us that capitalism can provide us with a remarkable array of kitchen gadgets, and Adam Smith, in his role as philosopher, telling us that kitchen gadgets aren't really worth manufacturing or owning.

Notice, in the second place, that contrary to popular belief, one can consistently be both anti-materialistic and a capitalist. For capitalism, besides possessing a remarkable ability to satisfy our desire for material things, is capable of satisfying our desire for nonmaterial things. In a capitalist system, the resources of society are drawn (by an "invisible hand") to produce efficiently whatever it is that the members of that society want (or, more precisely, whatever it is that they are willing to pay for). If Americans were suddenly to lose interest in acquiring kitchen gadgets and instead found themselves driven to learn advanced topology, our capitalist system would likely respond by taking steps to put advanced topology into the hands (or rather, the minds) of the masses. Similarly, if enough Americans decided to take after Thoreau and abandon their spacious homes in favor of huts in the woods, they would find the capitalist system amenable to their ends.

Of course, capitalism in a society with Thoreauvian values would be quite unlike the capitalism we know in our society. It is unlikely that the resources of that society would be devoted to building automobile factories or banks; but then again, in a society with Thoreauvian values, few would regard this (or the disappearance of jobs that it would entail) as a loss.

Those who are shocked by Smith's anti-materialistic utterances in *The Theory of Moral Sentiments* are for the most part those who incorrectly equate capitalism with materialism. Not only can one be an anti-materialistic capitalist, but it is quite possible that Adam Smith *was* one.

Furthermore, just as one should not make the mistake of equating capitalism with materialism, one should not make the mistake of equating socialism with anti-materialism. A socialist can consistently have as his goal providing BMW's to *all* people, and not just to the rich. Indeed, a case can be made that one of the reasons socialist societies are crumbling around the world is that these societies failed to deliver the material goods they promised in the past. Just as it is possible for a capitalist to ridicule Americans' obsession with acquiring cars, houses, and kitchen gadgets, it is possible for a socialist to find himself craving a new VCR.

In summary, Adam Smith was not the dogmatic capitalist that some would like him to be, but was instead a reflective person, one who realized that there is more to life than material well-being. Capitalists everywhere would do well to take this lesson to heart and to keep in mind the other side of Adam Smith. □

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Soviet Admissions: Communism Doesn't Work

by Peter J. Boettke

There are annoying misprints in history, but the truth will prevail!
— NIKOLAI IVANOVICH BUKHARIN (1937)

The civic rehabilitation of Nikolai Bukharin (1888-1938) in February 1988 was an event of tremendous significance in Soviet history.[1] The historical resurrection of Bukharin, who in the 1920s was arguably the most important Marxist theorist in the world and considered by Lenin to be "not only a most valuable and major theorist of the Party; . . . [but] he is also rightly considered the favourite of the whole party,"[2] offers a direct challenge to orthodox Stalinism. Not only in political terms, but also on economic grounds, Bukharin represents the key opposition to traditional Stalinist planning. As Thomas Sherlock has argued:

> Bukharin's rehabilitation has placed his conciliatory rural program, as well as his advocacy of moderate cultural and political lines, in direct opposition not only to the Stalinist "revolution from above," which dramatically expanded the bureaucratic reach of the state, but also to the terror of the 1930s, which destroyed the party as an autonomous political institution. The resurrected image of Bukharin is seen as a powerful antidote to the prevailing "Stalinist" relationship between the Soviet party-state and society and to "bureaucratic centralism" in the party.[3]

Bukharin, however, is not without ambiguity himself. Recognized as the author of the New Economic Policy (NEP) (1921-1928), which tried to reconcile market relations with government planning, he also was the architect of the Bolsheviks' attempt to implement pure Communism within Soviet Russia during the "War Communism" period of 1918-1921.[4] He represented the official position of the Party throughout the 1920s. Bukharin, as Alexander Erlich put it, "was undoubtedly the best educated economist not only of his group, but of the whole party as well, with a truly outstanding facility for the rationalization, in terms of theory, of any political viewpoint he happened to embrace, and for pushing them toward the full logical consequences."[5] His books, *The ABC of Communism* and *The Economics of the Transition Period*, were regarded as the theoretical manifestos of the war communism period. These books defended the extreme centralization policies, as well as the use of non-economic coercion, that the Bolsheviks had implemented from 1918 to 1921.

The failure of war communism by 1921, however, changed Bukharin's ideas about the construction of socialism and economic rationality. As he wrote in 1924, "The adoption of NEP was a collapse of our illusions . . . we thought then that our peacetime policy would be a continuation of the centralized planning system of that period. . . . In other words war communism was seen by us not as a military, i.e., as needed at a given stage of civil war, but as a universal, general, so to speak 'normal' form of economic policy of a victorious proletariat."[6] Bukharin, though, possessed a paradigm for

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THE BETTMANN ARCHIVE

Nikolai Bukharin

interpreting the collapse of the Soviet system under war communism—the economic theory of the Austrian school of economics.[7]

Bukharin's work on NEP, which argued for the necessity of market relations of production for economic development, are found in such volumes as *Building up Socialism* (1926) and in the collection of essays edited by Richard Day, *Selected Writings on the State and the Transition to Socialism* (1982). In his work on NEP Bukharin forcefully argued against the bureaucratization of the economy and for the importance of incentives in economic activity. In fact, in perhaps his most famous essay of this period, "Concerning the New Economic Policy and Our Tasks," written in 1925, besides encouraging the peasants to "enrich themselves," Bukharin explicitly acknowledged Ludwig von Mises's criticism of socialist planning and argued that Mises was "one of the most learned critics of communism."[8] Bukharin went so far as to admit that Mises's criticism of Communism was correct—at least for the historical epoch in which he wrote.

"A Bureaucratic Utopia"

Amazing as this admission is, Bukharin was not the only Bolshevik to recognize the problem confronting economic planning. Even Lenin had to admit the serious problems the Bolsheviks encountered in their attempt to implement socialism. In a speech to the Political Education Department on October 17, 1921, for example, Lenin admitted that "In attempting to go over straight to communism we, in the spring of 1921, sustained a more serious defeat on the economic front than any defeat inflicted upon us by Kolchak, Deniken or Pilsudski. This defeat was much more serious, significant and dangerous. It was expressed in the isolation of the higher administrators of our economic policy from the lower and their failure to produce that development of the productive forces which the Programme of our Party regards as vital and urgent."[9] Moreover, in a secret letter on February 19, 1921, he wrote, "The greatest danger is that the work of planning the state economy may be bureaucratized. . . . A complete, integrated, real plan for us at present equals 'a bureaucratic utopia.' Don't chase it."[10] Trotsky also would write, in his stinging criticism of Stalinist planning, *The Revolution Betrayed* (1937), that while "the obedient professors managed to create an entire theory according to which the Soviet price, in contrast to the market price, has an exclusively planning or directive character. . . . The professors forgot to explain how you can 'guide' a price without knowing real costs, and how you can estimate real costs if all prices express the will of the bureaucracy. . . ."[11]

These admissions, though, were buried for several decades as the Soviet bureaucracy exercised its power over the Soviet economy and the minds of its people. With the Gorbachev reforms (both glasnost and perestroika) Soviet analysts are now beginning again to admit the fundamental flaw in the Communist ideal. Socialist planning, as Mises demonstrated in his classic *Socialism* (1922), is logically impossible because of the social system's inability to provide knowledge about which production projects are feasible and which ones are not. Without private ownership, and specifically private ownership in the means of production, rational economic calculation is untenable.

Nevertheless, economic planners once in power must find some rationale upon which to base their

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decisions, and since economic rationales are out of the question, decisions are based instead upon political considerations. As a result, those who have a comparative advantage in exercising discretionary power will rise to the top of the planning apparatus. This is, as F. A. Hayek showed in *The Road to Serfdom* (1944), the basis for the totalitarian tendency within socialist economies.

Soviet-style economies, thus, do not conform to the ideal picture of a rationally planned Communist economy because that system is a hopeless and unachievable utopia. Instead, the Soviet-style economy is a vast military bureaucratic system designed to yield profits to those in positions of power.[12] The root of the Stalinist bureaucracy that plagues the Soviet economy, however, lies in the original Marxian aspiration to plan the economic system rationally even if the original goal is unattainable. Stalinism is, whether intended or not, the logical consequence of Marxism.[13]

Criticisms Come to Light

While these criticisms are becoming more and more common in the West, it is fascinating to see them come into print in the Soviet press during the age of glasnost. But appear they have, and with increasing frequency over the past few years. Here are just a few examples.

Nikolai Shmelyev, in his courageous *Novy Mir* article "Advances and Debts" (June 1987), argued that "economics has its own laws which are just as terrible to violate as the laws of the atomic reactor in Chernobyl." The following are excerpts from Shmelyev's article:

> We must call things by their proper names: foolishness as foolishness, incompetence as incompetence, Stalinism in action as Stalinism in action. . . . Perhaps we will lose our ideological virginity, but it now exists only in the fairy tale editorials of the newspapers. . . .
>
> We need to permit companies and organizations to sell freely, to buy and borrow funds from their reserves so as to create a powerful and vibrant goods market, to invest their enormous but idle resources, to unleash in practice—not just in words—economic initiative in the country. In place of fruitless efforts at central planning of our entire industrial production (some 24 million items), we should introduce contracts between supplier and consumer.
>
> We need to realize that there is such a thing as natural unemployment among people who are looking for work or changing their place of employment. . . . The real possibility of losing one's job, of being shifted to a temporary unemployment subsidy, or being forced to move to a new place of employment is not at all bad medicine to cure sloth and drunkenness.
>
> The economic situation of enterprises and cooperatives will have to depend directly on profit, and profit cannot fulfill its function until wholesale prices are liberated from subsidies. Over the centuries, humankind has found no more effective measure of work than profit. Only profit can measure the quantity and quality of economic activity and permit us to relate production costs to results effectively and unambiguously. Our suspicious attitude toward profit is a historical misunderstanding, the result of the economic illiteracy of people who thought that socialism would eliminate profit and loss.
>
> It is time to stop deceiving ourselves and stop believing the office ignoramuses. . . . Direct contractual links and wholesale trade in the means of production are two indivisible sides of the same process. If an enterprise is to market its planned and excess production through the marketplace, the enterprise will have to be interested in the ultimate results, and this will be a level of interest stretching beyond the fondest dreams of those who now specialize in "consciousness raising." Bottom-line, market stimuli must extend to all stages of the process: research, development, investment, production, marketing and service. Only the marketplace, and not mere administrative innovations, can subordinate this entire chain to the demands of the consumer.

Such admissions by Soviet intellectuals of the failure of socialism and the efficacy of market relations would continue in an article by Soviet historian V. Sirotkin, "Lessons of NEP," *Izvestia* (March 9, 1989). Sirotkin argued:

> It has become a copybook maxim to assert that the policy of "War Communism" was imposed on the Bolsheviks by the Civil War and the foreign intervention. This is completely untrue, if only for the reason that the first decrees on introducing the "socialist ideal" exactly "ac-

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cording to Marx" in Soviet Russia were issued long before the beginning of the Civil War (the decrees of Jan. 26 and Feb. 14, 1918, on the nationalization of the merchant fleet and of all banks), while the last decree on the socialization of all small handicraftsmen and artisans was issued on Nov. 29, 1920, i.e., after the end of the Civil War in European Russia. Of course, the conditions of the Civil War and the intervention left an imprint. But the main thing was something else—the immediate implementation of theory in strict accordance with Marx (from "Critique of the Gotha Program") and Engels (from "Anti-During"). . . .

The results of the policy of "War Communism" were catastrophic for the economy: By the beginning of NEP, the country was producing pig iron at only 2% of the prewar (1913) level, sugar at 3%, cotton fabrics at 5% to 6%, etc. So the attempt to introduce "communism from above" had led to a rift between city and countryside, a sharp economic decline, the scattering of the working class, and armed resistance from the peasantry. . . .

A most important aspect of NEP was the economic reform based on decentralization and broad autonomy for enterprises that had been switched to economic accountability (within the framework of the state budget and stable prices) and business accountability (obtaining of a profit at contract and market prices).

Today, from the heights of historical retrospection, one can say that Lenin's "fundamental change in our entire viewpoint of socialism" went far beyond the bounds of Soviet Russia alone. Essentially [NEP] was a model for restructuring the entire system of economic and social relations in the world, i.e., it was the world revolution, but a peaceful one, achieved by synthesizing the positive aspects of socialism and capitalism, in conditions of economic competition between the two systems.

Despite the interventionist confusion contained within his analysis, Sirotkin's discussion of the failure of war communism and the "success" of the reintroduction of market mechanisms under NEP is astonishing, especially if we keep in mind that his comments were originally read before the Plenary Session of the Communist Party Central Committee.

The Legacy of NEP

NEPist thinking permeates the Gorbachev reform era.[14] Gorbachev, himself, has invoked the NEP model as an historical precedent for his reforms. In his book, *Perestroika* (1987), Gorbachev describes his policy of economic restructuring as a return to the teachings of Lenin. Perestroika is the new NEP.

The Gorbachev reforms, while challenging the Stalinist past to an extent, do not go far enough in their criticism of the Stalinist economic system. In fact, Gorbachev and Abel Aganbegyan, his chief economic advisor, argue that Stalin's economic policies of collectivization were necessary given the state of development of the Soviet Union in the 1930s.[15] Neither Gorbachev nor Aganbegyan address the fundamental problem of the Soviet system; the lessons of history are not learned. Others within Soviet academic and intellectual circles, however, do not shy away from the obvious historical conclusion of the Soviet experience.

The stagnation of the Brezhnev era is a direct result of the Stalinist legacy in economic relations. And at least two writers have gone further and published essays in the Soviet press explicitly linking Marxist-Leninism to Stalinism and the Gulag. The problem with the Soviet system lies in the fundamental political and economic mistakes inherent in the Marxist-Leninist project.

Philosopher A. Tsipko, in a series of four essays published in *Nauka i Zhizen* between November 1988 and February 1989, entitled "The Roots of Stalinism," challenged the very idea that Stalin was a peculiarity of Marxian thought:

> I personally get the feeling that the presently voguish myth that Stalin's extreme-leftist "leaps" were of peasant origin was created in order to lay to rest the question of the doctrinal reasons for our failures in socialist construction and of the Party intelligentsia's and the working class's responsibility for Stalinism.
>
> Paradoxically, it seems that restructuring makes it more difficult to cleanse Marxism of certain typical blunders of 19th century social thought. Judging from certain journalists' articles, we have no right to judge Marxism on the basis of our socialist history. Philosopher I. Klyamkin tells us, for example, that the socialism that Stalin built has nothing to do with the

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socialism of Marx, or even with that of Trotsky, but was the product of the feverish mind of an unbalanced patriarchal peasant. If we accept that view, then we indeed have no right to compare scientific socialism and real socialism. But if we separate scientific socialism from real socialism in this way, we leave the former dangling in the air. . . .

It is difficult to accept the fact that the reasons for the failures of a movement with which our entire life is bound up lie in the movement itself, its own blunders and mistakes. It is comforting to believe enemies and external causes are to blame. . . . The temptation to separate Stalinism from our socialist construction is great, but one must consider what such a separation might lead to. What's more, one must proceed from the real historical facts.

It is common practice today to criticize the deformed, barracks-style, egalitarian socialism built in the 1930s. But that criticism diligently sidesteps the structural reasons for our barracks-style approach. And it avoids the central question: Can a nonbarracks-type, democratic socialism be built on a noncommodity, nonmarket foundation? That question is central not only for those who are thinking about the future but also for those seeking to understand the past. Why is it that in all cases without exception and in all countries . . . efforts to combat the market and commodity-money relations have always led to authoritarianism, to encroachments on the rights and dignity of the individual, and to an all-powerful administration and bureaucratic apparatus?

Marx never saw that difficult question, since he lacked appropriate historical experience. Lenin sensed it at the end of his life. . . . All this bespeaks an urgent need for a serious and open "self-audit" of Marx's teachings on the economic bases of the future society, on how the theoretical forecast relates to the real results of its implementation in real life.

Whether we want to or not, we have an obligation, in the name of our future, to take a more sober look at the nature and motives of leftist radicalism. And there will be no getting away without at least some reassessment of values and without clarifying what represents the greatest danger to us today. Criticism of Stalinism that is not carried to the point of principles will be of little benefit. . . . The truth is our sole guarantee against a restoration of Stalinism; it alone can protect us. Perhaps our whole problem, including the horrors of Stalinism, is precisely the result of having dissembled for so long, of not having learned to honor the truth per se, the truth of our history and its lessons.

Perhaps the most important essay to appear in the Soviet press, however, was written by the economist Vasily Selyunin. Selyunin's essay, "Sources," which appeared in the May 1988 issue of *Novy Mir*, argued that political and economic freedoms are inexorably connected and that the Soviet political terror under Stalin was a result of the Bolsheviks' economic policies under Lenin. Selyunin maintained that state interference with the economic system disrupts the natural workings of supply and demand and stifles economic incentives. Soviet economic problems, stated Selyunin, are the legacy of Leninist policies. As he pointed out with reference to Lenin's early policies, "It was not famine that occasioned the grain requisitioning, but just the other way around: The mass requisitions caused the famine."

The Failure of Central Planning

Selyunin also challenged the concept of rational central planning. "It can be argued," he stated, "that historical experience has failed to demonstrate any particular advantages of directive planning. To the contrary, we all know the disastrous losses society has sustained in strict accordance with the plan." The problem is a lack of any means to aid the planners in rational economic calculation from above; in the absence of market prices for the means of production, how do planners know which production projects are feasible and which ones are not? Economic planners, rather than formulate *ex ante* plans as was expected in Marxian theory, are forced to rely upon the world market to generate knowledge about resource allocation. As Selyunin wrote:

> The problem here lies not in individual mistakes but in the mistaken idea that you can prescribe from above, more or less in detail, the proportions and priorities of economic development and the scale of production of even the most important products. Our planners themselves belie this idea when they carefully study

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world trends, which are determined by market forces, in order to plan what we should produce. Thus they tacitly admit that there is a better means than ours for the regulation, or rather self-regulation, of the economy.

Perhaps Selyunin's most important insight into Soviet history and the current reform movement concerns the classical liberal argument about the interconnection of political and economic freedoms. In a very eloquent fashion he stated the connection:

> Under market-based capitalist production, a person has complete freedom to either get rich or freeze to death. Individual rights are the obverse side of merciless economic liberties. Conversely, under total state ownership, the temptation arises to expropriate the individual himself, his physical and spiritual energies, in order to organize work according to a single plan and uniform procedures. Under such conditions, the individual can be viewed as merely a cog in a gigantic machine. . . . It would be strange to speak of the individual rights or civil liberties of a cog.

The relative success of NEP, Selyunin maintained, was due to the establishment of the rule of law. "The economic successes of NEP went hand in hand with democratization: Coercion was sharply curtailed, the rule of law was strengthened, and personal liberties were greatly expanded." Therefore, if perestroika is to succeed similar action must be taken. And action must be immediate. The bureaucracy will resist change, but this obstacle must be overcome if there is to be any chance of real restructuring of the Soviet economy:

> That is where the chief danger for restructuring lies. Losing time means losing everything. Any economic-management possesses tremendous inertia and will reject alien elements, no matter how progressive they might be. That is why it is useless to gradually introduce new rules into the existing system. The only thing that can be accomplished that way is to discredit restructuring: "You see, years have been wasted on talk, and one can't see any changes." History will not forgive us if we miss our chance. An abyss must be crossed in a single leap—you can't make it in two.

These brave admissions by Shmelyev, Sirotkin, Tsipko, and Selyunin challenge to the core a government that derives its justification from Marxist-Leninist ideology. This legitimation crisis is perhaps most apparent in the growing political unrest within the Baltic nationalities. If glasnost exposes the Stalin-Hitler pact (1939) as immoral and illegitimate, then what does that mean for the status of Estonia, Latvia, and Lithuania?

But the legitimation crisis is felt even within such mundane affairs as day-to-day economic existence. Perestroika and glasnost evoke both hope and dismay, as Serge Schmemann has argued, "hope that at last the millions who have lived through the tyrannies and chronic shortages endemic to Communist states find some relief; dismay that so much of the terrible sacrifice, struggle and deprivation they have endured for so long must now be acknowledged to have been in vain, that the secular faith that once promised so much now stands revealed to its own adherents as a failure."[16]

Reforms Fail to Bring Change

The Gorbachev economic reforms, slow in introduction and inconsistent in application, have not produced any significant change in the Soviet economy. Long lines and shortages of basic food items are still the norm. This is occurring at the same time that more and more of the Soviet people are becoming aware of the reason for their misery—the Soviet system of economic administration.

Within this grand drama, however, there is another story unfolding. The death of Communism as a legitimating ideology is the ultimate vindication of several classical liberal scholars who were ridiculed for exposing the truth of the socialist system of economic planning. History has borne witness to the intellectual triumph of individuals like Ludwig von Mises, F. A. Hayek, Michael Polanyi, and Paul Craig Roberts. As Stephen Bohm writes with regard to Mises, "it is really scandalous to observe how decades of ridicule poured upon Mises's 'impossibility thesis' suddenly give way to an appreciation of his views as if they had been part of the conventional wisdom all along. . . . Surely, the belated appreciation of what was once widely thought to be his greatest blunder is Mises's ultimate intellectual triumph."[17]

Communism, plain and simple, has revealed it-

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self for the whole world to see as an unfortunate and terrible historical mistake. Zbigniew Brzezinski, in his controversial book, *The Grand Failure: The Birth and Death of Communism in the Twentieth Century*, concludes:

> The Communist phenomenon represents a historical tragedy. Born out of an impatient idealism that rejected the injustice of the status quo, it sought a better and more humane society—but produced mass oppression. It optimistically reflected faith in the power of reason to construct a perfect community. It mobilized the most powerful emotions of love for humanity and of hatred for oppression on behalf of morally motivated social engineering. It thus captivated some of the brightest minds and some of the most idealistic hearts—yet it prompted some of the worst crimes of this or any century. . . .
>
> Communism's grand failure has thus involved, in summary form, the wasteful destruction of much social talent and the suppression of society's creative political life; excessively high human costs for the economic gains actually achieved and an eventual decline in economic productivity because of statist overcentralization; a progressive deterioration in the overly bureaucratized social welfare system which represented initially the principal benefit of Communist rule; and the stunting through dogmatic controls of society's scientific and artistic growth.
>
> That historic failure, now explicitly acknowledged by the Communist leaders advocating reforms, has deeper roots than the "errors and excesses" finally regretted. It stemmed from the operational, institutional, and philosophical shortcomings of the communist experiment. Indeed, it was deeply embedded in the very nature of the Marxist-Leninist praxis.[18]

If, as Voltaire argued, history is philosophy that teaches us by example, then the lesson of the Soviet experience should challenge our basic preconceptions concerning government interference with free market processes. Not only socialist policies, but interventionist policies which derive their justification from the same pretense of knowledge must be challenged. Perhaps we have finally learned the lesson that the history of the Soviet Union has to offer us. If not, I fear, as Selyunin wrote, "history will not forgive us." □

1. On Bukharin's rehabilitation see *The Current Digest of the Soviet Press*, XL, #5 (March 2, 1988).
2. V. I. Lenin, "Letter to the Congress, December 25, 1922," *Collected Works* (Moscow: Progress Publishers, 1977), vol. 36, p. 595.
3. Thomas Sherlock, "Politics and History under Gorbachev," *Problems of Communism* (May-August 1988), p. 24.
4. For a discussion of this period of Soviet history see my "The Soviet Experiment with Pure Communism," *Critical Review*, vol. 2, #4 (Fall 1988), pp. 149-182. Also see my *The Political Economy of Soviet Socialism: The Formative Years, 1918-1928* (Boston: Kluwer Academic Publishers, 1990).
5. Alexander Erlich, *The Soviet Industrialization Debate* (Cambridge: Harvard University Press, 1960), p. 9.
6. See Alec Nove, "Some observations on Bukharin and His Ideas," *Political Economy and Soviet Socialism* (Boston: George Allen and Unwin, 1979), p. 86.
7. It is interesting to keep in mind that during Bukharin's exile from Russia in 1914, he studied economics in Vienna and attended Boehm-Bawerk's famous seminar on economic theory. He later embarked upon a serious study of the theories of Walras and Pareto. His studies are found in *The Economic Theory of the Leisure Class* (New York: Augustus Kelley, 1970 [1919]), which is a criticism of the Austrian school of economics and other non-Marxian schools of economics. Bukharin was well aware of both Boehm-Bawerk's and later Mises's criticisms of Marxian economics. In fact, he stated that his reason for concentrating upon the Austrian school was because "it is well known that the most powerful opponent of Marxism is the Austrian school."
8. Nikolai Bukharin, *Selected Writings* (New York: M. E. Sharpe, 1982), p. 188.
9. V. I. Lenin, "The New Economic Policy and the Tasks of the Political Education Departments," *Collected Works*, vol. 33, pp. 63-64.
10. Letter to G. M. Krzhizhanovsky, *Collected Works*, vol. 35, p. 475.
11. Quoted in Michael Harrington, "Markets and Plans," *Dissent* (Winter 1989), p. 60.
12. See Gary M. Anderson, "Profits from Power: The Soviet Economy as a Mercantilist State," *The Freeman* (December 1988).
13. For an interesting discussion of how even decentralized and humanistic Marxism leads logically, though unintendedly, to centralized administration of economic and social life see David Prychitko, "Marxism and Decentralized Socialism," *Critical Review*, vol. 2, #4 (Fall 1988), pp. 127-148. Also see Prychitko, "The Political Economy of Workers' Self-Management: A Market Process Critique," Ph.D. thesis, Department of Economics, George Mason University, 1989.
14. As Theodore Draper argues in "Soviet Reformers: From Lenin to Gorbachev," *Dissent* (Summer 1987), p. 287, "This return to a NEP-type reform is particularly characteristic of the unfolding Gorbachev period; Gorbachev himself has invoked the precedent of the NEP, as if it gave him a license to do what he wants to do. Thus, we are not straying too far from the present in paying special attention to the NEP period. Nep-thinking is imbedded in the present."
15. See Mikhail Gorbachev, *Perestroika* (New York: Harper and Row, 1987), p. 41, where he argues that the "industrialization and the collectivization of agriculture was indispensable" and Abel Aganbegyan, *The Economic Challenge of Perestroika* (Bloomington: Indiana University Press, 1988), p. 46, where he argues that the period of industrialization and collectivization allowed a backward Soviet Union to speed its development so that by 1941 the "Soviet Union was already producing 10% of the world's industrial output and had caught up with the developed European countries."
16. Serge Schmemann, "In Hope and Dismay: Lenin's Heirs Speak," *New York Times* (January 22, 1989).
17. Stephen Bohm, "The Austrian Tradition: Schumpeter and Mises," in Klaus Hennings and Warren J. Samuels, eds., *Neoclassical Economic Theory*, 1870-1930 (Boston: Kluwer Academic Publishers, 1989).
18. Zbigniew Brzezinski, *The Grand Failure* (New York: Charles Scribner's Sons, 1989), pp. 231, 241.

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America Needs Organic Farming — And Pesticides

by John Hood

Organic farming is all the rage these days. After a spring of food scares and a summer boomlet of environmentalism, a report issued last September by the National Academy of Sciences (NAS) has quickly become revealed truth to legions of editorial writers, public officials, and farming mavericks. Synthetic drugs for livestock are out. Synthetic pesticides are out. Synthetic fertilizers are out. Synthesizing itself is out.

And what is in? Natural fertilizers, crop rotation, careful breeding—basic farming practices making a comeback after some 50 years of neglect. The report says that such practices can be as productive, and in some cases even more so, than the standard synthetic chemical approach.

This finding has been greeted with almost hysterical glee. Many view the popularity of organic farming as the start of America's "Green Revolution." There is no question that the public's appetite for natural foods, for foods free of dangerous chemicals and cancer-causing preservatives, is large and as yet unsatiated. When reports surfaced earlier this year about Alar, a cancer-causing preservative used on apples, supermarkets with organic food sections found themselves making a bundle off concerned shoppers (such foods are typically much more expensive than chemical-tainted wares). Grocery chains across the country have jumped on the bandwagon by issuing "pesticide-free" pledges.

All this hype has occurred despite the efforts of many scientists to communicate a basic message to a fearful public: the food supply is safe. Agricultural chemicals, they say, pose little if any risk of cancer to consumers. Bruce Ames, the noted chairman of the Department of Biochemistry at Berkeley who developed the standard "Ames" test of cancer risk, estimates that the number of cases of cancer or birth defects caused by man-made pesticide residues in food or water is "close to zero."

Even so, the NAS report does make a significant point. American farmers have used synthetic chemicals and machinery reflexively, despite evidence that organic methods can in some cases be more cost effective and maximize long-term profits. The real problem is not health but economic efficiency. And the report correctly identifies the culprit: Federal commodity programs which encourage overproduction and punish farmers who rotate their crops.

The Federal programs, which cover about 70 percent of farm acreage, are crop-specific, paying farmers subsidies to plant the same crop year after year. If a farmer reduces his acreage, say to leave fields fallow for a year, he gets less money. If a farmer plants alfalfa or another crop designed to replenish his soil's nutrients, he gets less money. So farmers have an incentive to keep the same amount of land planted each year in the same crop, replacing crop rotation with heavy doses of synthetic fertilizers and pesticides. As the NAS report points out, the Federal subsidies insulate farmers from the true costs of the synthetic approach: soil erosion, loss of nutrients, and increased use of expensive agricultural chemicals.

James Bovard of the Competitive Enterprise Institute has identified other Federal farm programs that distort the costs and benefits of farming practices. In dry areas, Bovard writes in his book *The Farm Fiasco*, Federal irrigation projects sustain crops that otherwise would be replaced with dry-weather crops more suited to soil conditions. Federal disaster payments and drought insurance

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reduce the financial risk to farmers who plant in low-yield or highly erosive soils, since catastrophe becomes a government problem rather than a private one. Insurance programs also relieve farmers of the need to diversify, thus placing the entire operation in greater risk when pests, weather, or disease wipe out a particular crop.

All these government programs are defended with the argument that the free market, which operates most of the American economy, simply does not work in agriculture. But the fact is market forces have not been allowed to impose the costs of farming methods on those who practice them. Farmers are making their decisions based on signals from Washington rather than signals from their own fields. In this way, government has established a bias toward synthetic approaches and away from organic farming, distorting agricultural markets and costing taxpayers $25 billion a year in Federal subsidies.

Unfortunately, the economics behind organic farming are being overshadowed by its supposed health benefits. Instead of recognizing agricultural chemicals as tools that have been overused, many policy-makers and environmental groups are treating them as poisons to be discarded. Instead of ending the current bias toward synthetic chemicals, they would replace it with a bias against them.

Groups such as the National Toxics Campaign and National Resource Defense Council (they started the Alar scare) have long pushed for a ban on many pesticides deemed carcinogenic, and they hope the new impetus toward organic farming will increase support for such measures in Congress. Many sympathizers look to farm programs as leverage for enacting the environmentalist agenda by making "nature-conscious" practices a condition for receiving subsidy checks. Even John Pesek, the Iowa State University agronomist who headed up the NAS research effort, says that "the growing demand for safer food and a cleaner environment suggests the time is ripe" for organic farming.

But the fact is that foods grown without agricultural chemicals are rarely more safe, and sometimes are less so, than foods grown with chemicals. "All plants produce their own natural pesticides to protect themselves against fungi, insects, and predators such as man," says Ames of Berkeley. Tests of these natural pesticides have revealed that about the same percentage cause cancer in laboratory animals (30 percent) as do synthetic pesticides. Cancer-causing agents occur naturally in such foods as mushrooms, cabbage, broccoli, pineapples, and carrots.

Ames and other scientists are not saying that Americans are at high risk of cancer. Both naturally occurring and synthetic pesticides pose a negligible risk of cancer in the doses found in foods. What they are saying is that man-made chemicals are no more dangerous than those produced by the plants themselves.

In fact, breeding plants to be highly resistant to pests or disease—an approach favored by environmentalists and the NAS report to reduce the need for synthetic chemicals—doesn't always make the plants more healthful. In one case, a new variety of celery that was highly insect-resistant was introduced in California. When people handling the vegetable began to complain of severe rashes, researchers found out that it had 10 times the level of a natural carcinogen found in regular celery. "Many more such cases are likely to crop up," says Ames, "because there is a fundamental trade-off between nature's pesticides and man-made pesticides."

Nevertheless, organic farming proponents are basing their case chiefly on the specious food safety issue, when the focus should be on productivity and efficiency. Merely changing Federal farm programs to encourage crop rotation instead of synthetic chemicals, on environmental or food safety grounds, would be as big a mistake as the previous policy has been.

Each farmer's case is different. Growing one crop in one region may require use of synthetic pesticides and fertilizers. Farming another crop in another field might be done cheaply and productively with purely organic methods. Even then, when pests or diseases suddenly strike, chemicals still may be the only effective response.

Heavy-handed government involvement, no matter how well-intended, cannot reflect these case-by-case concerns as well as can individual farmers operating in a free market. The best solution to America's farming woes is to stop treating farmers like wards of the state and start treating them like business people. Eliminate the subsidies. Let farmers decide how to plant their crops without interference from Washington bureaucrats or phobic environmentalists. Besides ending our silly bias against organic farming, we could save $25 billion from the Federal budget to invest in more worthwhile pursuits, of which there is, indeed, a bumper crop. □

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Crop Controls and Indian Raids in Colonial Virginia

by Gary M. Pecquet

The British colonized Virginia in 1607, and by 1612 they were growing tobacco. It soon became the colony's major export. But heavy reliance upon tobacco proved troublesome for the Virginians. Small changes in the supply could produce large changes in tobacco's price.

The tugs of demand and supply altered the price of tobacco and produced the "trade cycle" of the Chesapeake Bay colonies. Under British mercantilist law, all tobacco had to be shipped directly to England. English merchants marketed the tobacco products to the rest of the world. As new markets were opened and new uses for tobacco were discovered, the demand for tobacco increased and so did the price. A "tobacco boom" in Virginia would be followed by increased migration to the colony. This in turn led to an increase in supply, depressing the price and ending the boom.

Occasionally a "tobacco bust" occurred when favorable weather fostered overproduction and slashed tobacco prices. Sometimes war severed the colonies from their markets, which also hurt the growers. During the 17th century the overall trend for tobacco prices was down, as the colonists learned better cultivating techniques.

From time to time, colonial authorities imposed crop restrictions upon the growers. The chief purpose of these regulations was to maintain an "adequate" price for tobacco in much the same way that crop controls and price supports do in 20th-century America. In both cases crop restrictions may enrich the farmers, but only at the expense of consumers. Moreover, since restrictions discourage or destroy production, a net decrease in wealth results.

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What farmers needed then (as they do today) was insurance to protect them against uncertainty in the prices of their products. Today, this might be achieved through the commodity futures markets. In the 17th century, Virginians could purchase bills of exchange. These bills entitled the holder to buy merchandise on credit. The prices of tobacco and bills of exchange varied inversely, since the bills amounted to claims upon future merchandise that colonists could purchase with the present tobacco crop. By altering his portfolio, a colonist could effectively insure his assets.

The colonial assembly began to restrict directly the number of tobacco plants with the inspection law of 1629-1630. This law limited the number of plants to 2,000 per family member. Subsequently, these crop restrictions became more limiting. Family members not engaged in tobacco cultivation were no longer counted. Later, only nine leaves per plant could be cultivated. In 1633, the assembly reduced the maximum number of plants to 1,500 for each family member engaged in tobacco production.

These limitations drastically altered the planting habits of the Virginia colonists. The fertility of the plantations already under cultivation tended to decline with each successive planting season. This tended to reduce the size of the tobacco plants. The planters tried to improve their crops by fertilizing the lands with cattle manure. This, however, tainted the flavor of the tobacco.

The best way to comply with the crop restrictions and still maximize the value of the tobacco crop was to grow the tallest and highest quality tobacco possible. This could be done only on virgin land. By the end of 1637, the colonists discovered

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Tobacco planting in the colonies.

that the best tobacco-growing lands were along streams.

Virginia planters hastily attempted to secure the new land before gaining legal title. They intended to retain their old land and homes while cultivating the new ground with their legal quotas of tobacco plants. The primary costs of securing the land included the expenses of clearing the forests, the construction of usually unsubstantial living quarters for the workmen—and the increased danger of Indian attacks. Frontier tobacco plantations could not be easily defended by the colonial militia. Over one-third of the laborers had to be stationed on guard duty.

Almost no one would have predicted that the crop limitations of the 1630s would increase tensions with the nearby Indian tribes. Economic theory, however, predicts that whenever the government creates an artificial benefit for some group in society, people will expend resources to avail themselves of these benefits. Thus, if the government attempts to support agricultural producers by imposing a price floor on farm products, farmers tend to grow more crops. If the government doesn't wish to stockpile farm produce, it must then restrict agricultural production. It can limit acreage, but this encourages farmers to work the allowable acres more intensively. It can limit the number of plants in the field, as did the Virginia colonial assembly, but this only induces the farmers to increase their production costs in other ways which maximize the value of each plant instead of cultivating many smaller plants. These costs may be incurred due to increased fertilization, relocation, and so on.

Basic economics argues that, in the long run, additional costs of production will arise to eliminate the benefits of crop restrictions to the recipients. It worked this way in 17th-century Virginia, as it must today. Only the particular manner in which these expenses manifested themselves—in the form of increased risk of Indian attacks—was unusual. Moreover, as costly as these crop restrictions were, they did not prevent the decline in tobacco prices. By 1639, the price of tobacco dropped below subsistence levels. The colonial authorities passed new regulations that permitted destruction of a large part of the crop. This policy, too, produced only disaster. It not only destroyed the fruits of over half of Virginia's productive resources, to the extent that it did support tobacco prices it encouraged more lands to be brought under cultivation.

Throughout its colonial history, Virginia attempted many other crop control schemes. After the 1630s, most of them proved ineffective for yet another reason. Maryland became a major competitor in growing tobacco. Any restriction of the Virginia crop could be replaced by increased production from its neighbor. Crop restriction schemes required collusion between the two colonies. The Maryland economy, however, was more diversified than Virginia's. The many non-tobacco growers were unlikely to vote for measures designed to increase the price of tobacco when they had to obtain the weed in order to pay their taxes and settle their debt accounts. Thus, the Maryland assembly seldom approved crop restriction proposals. Competition replaced monopoly in the field of tobacco production. □

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The Failures and Fallacies of Foreign Aid

by David Osterfeld

The case for foreign "aid" is seldom made; it is taken as axiomatic. In its 1980 report, *North-South: A Program for Survival*, the Brandt Commission states that "The poorer and weaker countries have not been able to raise much money on commercial terms. For them, Official Development Assistance or aid is the principal source of funds" (1980, p. 224). Such questions as why some countries remain poor and weak while others progress, or why these countries are unable to raise money on commercial terms are never raised. "Aid" is simply assumed to be "essential."

The Commission laments the "disappointing record" of such developed countries as the United States which have not met the 0.7 percent target for Official Development Assistance established by the United Nations in the early 1970s. "An increase in total aid," says the Commission, "must remain a high priority," and "the overall flow of wealth must increase" (pp. 226-27).

In its follow-up report three years later, the Brandt Commission reiterated its call for increased "aid." The Commission asserted that despite "a few glaring examples of misused or unsuccessful aid loans," most "aid" was effectively used (1983, p. 78); observed that there remained substantial unmet needs, especially in the poorest of the less-developed countries (LDCs) (p. 75); deplored the "strong current mood in the donor community to require greater efforts by aid recipients to improve their own economic performance"; called on donor countries to "respect . . . different economic systems" (p. 73); and urged "donors to double by 1985, in real terms, the aid flows which the poorest countries received in the five years up to 1981."

The report also called on the donor countries to waive all "official debt" for the least developed countries (pp. 76- 77). And, just in case there was any doubt, the Commission emphasized that even if the LDCs did implement the policy reforms called for by the World Bank and many donor countries, such "reform is not a substitute for more assistance; it *requires* more assistance to be successful" (p. 74, emphasis in original). Nowhere in either of the Brandt Commission reports is the question even considered of whether "aid" is the appropriate vehicle for stimulating economic development.

Indeed, that any but the misanthropic could oppose programs whose stated goal is to provide "aid" to the less fortunate is generally met with incredulity. For example, in December 1983 on a panel on "Liberation Theology and Third World Development," Lord Peter Bauer presented a critique of foreign "aid." Dr. Murdith McLean, who followed Bauer on the panel, opened by commenting that "I was going to begin by saying that everyone thinks foreign aid is at least a good thing to those less well-off than ourselves. It may appear that we have at least one disagreement on that contention in the panel" (p. 39).

But using the term "foreign aid" to describe the political process of transferring wealth from First World taxpayers to Third World governments prejudges the results. There is, as Thomas Sowell notes (p. 239) no more *a priori* justification for calling it "foreign aid" than "foreign hindrance."

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Whether wealth transfer is an aid or a hindrance, Sowell points out, is an empirical question, not a forgone conclusion.

The point is well taken. What are the results of foreign "aid"?

1. The Record

In *The Economics of Developing Countries*, Wayne Nafziger asks "How effective has aid been?" After listing several criticisms, he concludes (pp. 396-397) that "Nevertheless, the evidence suggests that aid has been essential to many low- income countries in reducing savings and foreign exchange gaps." However, no evidence is presented to support this assessment. Similarly, Nafziger acknowledges several criticisms of food aid but concludes (p. 401) that "Nevertheless, food aid has frequently been highly effective" and "plays a vital role in saving human lives during famine or crisis." Again, no supporting evidence is provided.

Whether bilateral or multinational, the official original purpose of foreign aid—the transfer of resources from one government to another—was to stimulate economic development. However, with the passage of the U.S. Foreign Assistance Act of 1973 and the adoption of the New International Economic Order by the General Assembly of the United Nations in 1974, the additional goal of directly increasing the living standards of the poorest strata in the recipient countries was added to, if it did not in fact replace, the original goal (Eberstadt, 1985b, pp. 25-26; Erickson and Sumner, pp. 1-21).

Clearly, "aid," at least according to its original intent, was to be temporary. Once the capacity for self-sustaining economic growth had been achieved, "aid" would no longer be required. Yet, as Paul Craig Roberts has observed (p. 20), "Far from developing, most Third World countries seem to be more dependent than ever on aid." In fact, it was precisely because of the growing dissatisfaction with the results of foreign "aid" that the "reforms of 1973" altered the focus of the program. As Eberstadt put it (1985b, p. 25) the problem "was that the strategy of export-oriented, self-sustaining growth which we had advocated since the 1940s did not actually benefit the common people of the countries it transformed."

Yet, by either goal, that of generating self-sustaining economic growth or improving the lot of the poorest segments of the recipient countries, the evidence lends precious little support for the contention that "aid" actually aids.

The total *net* transfer of capital, private and public, from the West to the Third World between 1950 and 1985 amounted to the staggering sum of *over $2 trillion in 1985 prices*. Private investment accounted for about 25 percent of this total, but its share has fallen from about 40 percent in the 1950s to only about 16 percent in the 1980s. The $2 trillion, Eberstadt notes (1985a, p. 25), was enough to purchase not only all the companies on the New York Stock Exchange but, in addition, the entire American farm system. What has this massive transfer accomplished?

"Aid" has been directly responsible for the pauperization of large segments of the population in places such as the U.S. trust territory of Micronesia and elsewhere (Fitzgerald, pp. 275-84; Manhard, pp. 207-14).

"Aid" has in many places actually destroyed the possibility for sustained economic growth by driving local producers, especially farmers, out of business. Such was the case in Micronesia, Bangladesh, India, Egypt, Haiti, Guatemala, Kenya, and many other places (Bovard, p. 18; Bandow, p. xiv; Fitzgerald, p. 278 and 288; Eberstadt, 1985b, p. 22).

Some experts believe that food "aid" to India "may have been responsible for millions of Indians starving" (Bovard, p. 18). Other studies have shown that malnutrition in Bangladesh actually rose as food aid to that country increased (Krauss, p. 160). It is unlikely that these are isolated occurrences. Countries such as Peru, Haiti, and Guatemala have either refused to accept U.S. "food aid" or pleaded with the U.S. government to restrict such "aid" (Bovard, p. 18).

Africa, traditionally a food exporter, "lost its historic ability to feed itself," notes Sowell (p. 239), precisely when donor agencies began to "smother Africa with project aid." Many observers believe that the relationship is not accidental and that Africa's economic deterioration, and in particular its tragic agricultural situation, was caused, in part, by "aid" (Ayittey, 1988; Fitzgerald, pp. 287-89; Bauer, 1984, pp. 46, 51-52).

In practically every case, the influx of "aid" has been immediately followed by the emergence of a massive, unproductive, parasitic government bureaucracy whose very existence undercuts the re-

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cipients' ability for sustained economic growth (Fitzgerald, pp. 283, 285-86; Sowell, p. 240; Manhard, p. 209).

More systematically, the World Bank notes (1983, p. 18) that Official Development Assistance totalled five percent of the gross domestic investment of the low-income countries of South Asia, but over 40 percent in the low-income countries in Africa. It also notes (1980, Table 2.8, p. 11) that for the decade of the 1970s per capita income in South Asia's low-income countries grew over five times faster than it did in the low-income countries of Africa.

Conversely, the most economically developed parts of the world—Western Europe, the United States, and Japan—developed without aid. Similarly, Hong Kong and Singapore, two of the most economically vibrant areas over the past two decades, received only negligible "aid."

Finally, Taiwan and South Korea are often touted as "foreign aid" success stories. However, their impressive economic performances began only *after* large-scale economic aid from the U.S. was discontinued (Krauss, p. 190).

In short, despite the truly massive infusion of "aid" into Third World countries, there is little to suggest that this has succeeded in either stimulating self-sustaining economic growth or improving the plight of the poorest strata of people in the recipient countries.

2. Reforming Foreign "Aid"

Many who acknowledge that foreign "aid" has done little or nothing to help the people of the LDCs believe that the solution lies in reforming the aid program. What is needed, they maintain, is better accounting methods, a closer scrutiny of program grants, or simply better, or more public-spirited, administrators.

It is no doubt true that such reforms, if implemented and followed, would eliminate some of the more unsavory aspects of the aid program, such as the blatant waste, mismanagement, and corruption that has been a part of foreign "aid" since its inception.

One problem, however, is that "aid" has increasingly come to be viewed, by recipient as well as donor countries, not as something freely granted by the latter to the former, but as something the more-developed countries (MDCs) owe the less-developed countries (LDCs). And since the LDCs have a "right" to the "aid" it is impermissible, in fact "immoral," for donor countries to place restrictions on how the "aid" is to be used.

The view that everyone has a moral and legal right to have his "basic needs" supplied was the thrust behind the Foreign Assistance Act of 1973 as well as the Report of the Presidential Commission on World Hunger, commissioned by the Carter administration. The later suggested that a principal goal of foreign "aid" is to reduce hunger in the world and that this could be achieved by "redirecting income from the rich to the poor" (in Eberstadt, 1985b, p. 28). Similarly, the United Nations' New International Economic Order states that "every country has the right to adopt the economic and social system that it deems to be the most appropriate for its own development and not to be subjected to discrimination of any kind." Put simply, the MDCs have an obligation to provide the LDCs with "aid" but no right to stipulate any conditions for its use. Given this outlook, and also given the fact that "aid" is now channeled increasingly through multilateral agencies dominated by the LDCs, it is unlikely that such reforms will be implemented.

But there is a far more serious difficulty. Proposals to reform foreign "aid" do not call into question the aid program itself. They assume that, if only the programs could be successfully administered, beneficial results would follow. In fact, even if the proposed reforms were implemented, the expected beneficial results would not appear. The basic problem lies not in the way the programs are administered; it lies in the nature of programs, themselves. Foreign "aid," *by its very nature*, retards economic growth and development.

3. Economic Problems of Foreign "Aid"

The economic case against foreign "aid" can be subdivided into two categories: (a) the problem of incentives and (b) the problem of calculation. Each will be dealt with in turn.

a. **Incentives.** Individuals act to maximize their utility. One of the ways they do this is by making trade-offs between additional units of wealth (and thus work) and additional units of leisure. Each person must decide whether an additional unit of wealth is more valuable to him than the unit of

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leisure he would have to forgo in order to obtain that wealth. If so, he will prefer to increase his wealth at the expense of his leisure; if not, he will prefer to increase his leisure by reducing his work, and thus his wealth.

The implications are significant. If individuals find themselves in positions where the benefit from a unit of leisure exceeds the benefit resulting from an additional unit of work, it will be rational for them to choose leisure over work. For example, a 100 percent tax on all production, it is safe to assume, would eliminate all productive behavior. This is so since it would sever any connection between an individual's economic behavior and his economic position. That is, his individual economic activity would have no bearing on his economic status, which, in turn, would render any productive work on his part utterly worthless to him. While each increment of leisure would be less valuable than each preceding increment, it would still retain at least some value. Consequently, when confronted with a choice between work, which has no value to the individual, and leisure, which has at least some value, the rational choice would be to choose leisure over work. Similarly, insuring individuals of a certain level of wealth or supplying them with certain economic goods, regardless of circumstances, artificially reduces the value of work relative to leisure. If this is correct then one would expect to find that the more lucrative such benefits become, the greater the amount of leisure individuals would choose (See, e.g., Osterfeld, 1986; Osterfeld, 1988b).

The evidence bears this out. The Great Society and War on Poverty programs of the 1960s not only failed to eliminate poverty in the United States, but actually led to an increase in the number and in the percentage of the poor. The poor, notes sociologist Charles Murray (p. 9), "continued to respond, as they always had, to the world as they found it, but we . . . changed the rules of their world. . . . The first effect of the new rules was to make it profitable for the poor to behave in the short term in ways which were destructive in the long run. Their second effect was to mask these long term losses—to subsidize irretrievable mistakes. We tried to provide more for the poor and produced more poor instead."

In short, in an effort to aid the poor, a large segment of American society has been pauperized. The pauperization of the once-proud Navaho Indians, after decades of being heavily subsidized by the U.S. government, is another case (Bauer, 1981, p. 113).

The Micronesians

There is no reason to believe that the disincentive effects of "aid" are limited to domestic programs. The pauperization of the U.S. trust territory of Micronesia is a direct result of "foreign aid." The U.S. acquired Micronesia as a trust territory in 1945 following its liberation from the Japanese. Outside private investment was discouraged because it would, according to U.S. Navy officials, "reduce the people to cheap labor" (in Fitzgerald, p. 276-77). Instead, the people of Micronesia were given free food, clothes, and other supplies. One result was that the distribution of free food and clothes bankrupted many local stores. Another was that it undermined the incentive to work. Not surprisingly, Micronesians preferred "to accept free and usually gratuitous welfare, thus avoiding the work and sacrifice required for real economic progress" (Manhard, pp. 213-14).

As productivity plummeted, Micronesia became entangled in a vicious circle: the more the economy deteriorated, the more "aid" it received; and the more "aid" it received, the more the economy deteriorated. Between 1947 and 1985 this territory of less than 150,000 people received $2.4 billion, and its inhabitants were eligible for close to 500 government programs (Manhard, p. 213; Fitzgerald, p. 279).

The statistics are indeed revealing. Nearly two-thirds of all Micronesians are now employed by island governments financed by American taxpayers. In terms of acreage cultivated, every category of agriculture declined. Between 1963 and 1973, acreage devoted to coconuts fell by 50 percent, vegetables by 70 percent, and citrus fruit by nearly 60 percent. During the same period, imports of food that traditionally had been produced locally rose five-fold while exports declined by half (Fitzgerald, p. 279). And a 1984 U.S. State Department report lamented the fact that despite massive infusions of funds, the local fisheries sector is no more productive than it was in 1945 before Micronesia became a trust territory (Fitzgerald, p. 282).

Minister of Administration Hauro Willter has publicly complained that "We have no technicians,

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WIDE WORLD PHOTOS

Main Street in Micronesia: Run-down corrugated metal buildings line the main street of Kolonia, the district center of Ponape, one of the multitude of tiny, primitive islands which form Micronesia.

no plumbers, no electricians. We have no economic base to be self-sufficient because the U.S. Government just handed us everything and didn't ask us to do anything for ourselves" (Fitzgerald, p. 275). Yet, the American response to the alarming deterioration has been to *increase* "aid" to Micronesia over the next 15 years to a rate more than double the average of the first 38 years!

The point, of course, is not that Micronesians are inherently lazy. It is that they behaved rationally given the context within which they found themselves. There was no need for them to trade off leisure for wealth since they could have as much or more wealth, at least in the short run, without sacrificing leisure than they could obtain by working.

What makes Micronesia so pertinent is that it is composed of more than 2,100 islands comprising numerous cultures and nine distinct languages. One might expect the results of foreign "aid" to vary from culture to culture. But as Fitzgerald points out (p. 275-76), this was not the case: "What should confound sociologists but vindicate free-market enthusiasts is that nothing of the sort occurred. The uniform application of government in Micronesia, placing it at the center of economic life, produced in every culture and among every island group a uniform result—stagnation, dependence, disaster and despair."

"Food for Peace"

There is little doubt about the disincentive effect of foreign "aid." The "Food for Peace" program, or PL-40, began in 1940. The program distributes surplus U.S. food overseas. In country after country, including Bangladesh, India, Haiti, and Guatemala, the result, Bovard (p. 18) notes, is that the program "has fed the same people for more than a decade, thereby permanently decreasing the demand for locally produced food and creating an entrenched welfare class."

Perhaps even more tragic is that since "consumers naturally will not pay for what they can get free" (Bandow, p. xiv), the program has driven local producers out of business. Thus, not only has "food aid" pauperized large segments of the Third World, it has also penalized local producers, thereby resulting in a "de-skilling" of the local population as well as retarding the development of those attitudes—thrift, industry, and self-reliance—that are essential for economic development.

But what of emergency relief such as that ex-

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tended to famine-stricken countries like Ethiopia? Again, the record speaks for itself. During the 1973-74 famine, Ethiopia received large amounts of food from Europe and America. Although the provinces of Eritrea and Tigre were most affected, food was diverted from them to starve the rebels there into submission. The government of Haile Selassie sold much of the donated food on the world market; the money went to line the pockets of regime members. The government even offered to sell the U.S. 4,000 tons of grain, which the U.S. would then donate back to Ethiopia, thereby helping the U.S. to fulfill its pledge of 22,500 tons of donated food. The offer was declined (Shepard; Legum; Osterfeld, 1985, pp. 264- 66).

The actions of the Mengistu government during the 1984-85 famine were remarkably similar. Though thousands starved, the government not only spent over $200 million to celebrate the tenth anniversary of the Marxist revolution, it also earned $15 million in revenues by charging ships loaded with donated food a port-entry fee of $50.50 a ton. Ships unable to pay the fee were turned away, cargo unloaded (Fenwick). Again, the Eritrea-Tigre area was sealed off, and those smuggling food into the area were attacked by the army. Food shipments were seized and some of it used to feed the army. Some has been sold on the world market, and the money earned used to buy munitions for the war against the rebels.

"Most of the food destined for Eritrea—as much as 100,000 tons each month—has arrived at the Ethiopian-controlled port cities of Aseb and Mitsiwa." But, says Anthony Suau (pp. 391, 400), since "Ethiopia tries to prevent outside aid from reaching the people in Eritrea . . . food aid and medicine must enter the way I did: from Sudan, crossing the border without official permission and moving only at night to avoid Ethiopian planes." The steady trickle of Eritrean refugees into Sudan, about 400,000 between 1967 and 1984, has turned into a flood, with many of them either starving or wounded from strafing and the bombing of civilian centers by the Ethiopian military (Kaplan).

But even under the best of circumstances, the benefits of emergency aid for victims of famine or other natural disasters may be only an illusion. First of all, if the "aid" is distributed free of charge, it will, as already noted, drive local shops and markets out of business, thus retarding recovery, or even preventing it altogether. But if the food is sold at local, pre-disaster prices, it will tend to freeze domestic production at the disaster level. That is, if enough food is provided by outside "aid" programs to prevent food prices from rising, there will be little incentive for local farmers to return to their pre-disaster level of production, since the additional food could be sold only at lower prices. Thus, even if donated food were sold at pre-disaster local prices, it would still permanently displace much local production. And finally, while there are shortages of food in particular places, there is no shortage of food in the world as a whole. And, if necessary, food production could be greatly expanded (see, e.g., Osterfeld, 1988a). Consequently, the reduction in local output due to drought or other natural disasters would, if local prices were permitted to rise, stimulate the importation of food. Significantly, this would not disrupt the recovery process. On the contrary, the higher prices would actually stimulate it since they would encourage local producers to return to their pre-disaster levels of production. As these levels were reached, local prices would fall, crowding out not the local producers but the foreign importers.

That is what would happen in the event of an actual natural disaster. But, as Eberstadt (1985a, p. 25) notes, the fact is that there is very little that is natural about today's "natural disasters." "Acts of God," he writes, "cannot be prevented, but the quotient of human risk and suffering can be vastly and systematically reduced." During the first decade of the 20th century more than 8,000 Americans died in hurricanes. During the last ten years there have been only 100 hurricane-related deaths. How does one explain this decline despite a doubling of the population? "Improvements in communications, transportation, weather tracking, emergency management, rescue operations, and relief capabilities have made it possible to reduce dramatically the human price exacted by even the worst hurricanes in the most populated areas. Purposeful private and governmental actions," Eberstadt continues (1985a, p. 26), "can now substantially cut the toll from other natural disasters as well, even in the poorest nations."

Given the surplus of world food coupled with the use of "early warning systems" ranging from aerial and meteorological surveillances to using price fluctuations in local markets as a barometer of the size of regional harvests, there is no reason

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in today's world for local crop failures, due to such natural conditions as drought, to result in famine. Where famine has occurred, it is traceable to government policies which have, intentionally or unintentionally, short-circuited both the early warning systems and the price-induced transfer of food to the affected areas. In many cases, such as the starvation of millions of Russians in 1929-39, the starvation of at least a million Ibos in Nigeria in the late 1960s, the starvation of 100,000 Timorese after Timor's annexation by Indonesia in the mid-1970s, the starvation of an estimated two million Cambodians after the Khmer Rouge seized power in the late 1970s, the mass starvation in Afghanistan following the deliberate destruction of Afghanistan's food system after the 1979 invasion by the Soviet Union, and massive famines in Eritrea in the 1970s and 1980s, *starvation was the deliberate intention of the government* (Eberstadt, 1985a, pp. 25-27; Zinsmeister, pp. 22-30).

In other cases, such as the starvation of 20 to 30 million Chinese during the "Three Lean Years" from 1959 to 1962, and the massive famine in most of the sub-Saharan countries in the 1980s, starvation, while not the intention of the government, was nevertheless the direct, albeit unintentional, consequence of ill-advised government policies such as price controls, collectivization, marketing boards, and other interventionist measures which not only reduced the production of food locally but discouraged or even prohibited the importation of food from abroad.

In the former case, aid was not desired, since starvation was the direct intention of the government. In the latter case, "aid" may have done more harm than good since by subsidizing the effects of ill-advised government policies, it enabled, even encouraged, the governments to continue pursuing the very policies that were responsible for the catastrophe in the first place, thereby compounding the harm.

b. **Calculation**. Another problem inherent in the nature of foreign "aid" is that of economic calculation. It is economically rational to pursue a project only when the (expected) benefits exceed the costs. Although this may be occasionally overridden by non-economic considerations, any country interested in economic growth and development must adhere to this general principle.

This poses a serious problem for the recipients of "aid." Since the transferred resources would be scarce, their transfer at *zero cost to the recipients* would seriously distort cost data. Thus, even assuming that the public officials honestly desire to benefit their people, the artificial lowering of costs entailed by the transfers would make many projects *appear* profitable which in fact are economically unsound. That is to say, trying to determine whether costs exceed benefits in the absence of accurate cost data is rather like trying to cut a piece of paper with a single blade of scissors. In such circumstances, it is inevitable that numerous mistakes will be made and the waste of resources will be enormously high.

Moreover, private investors risking their own capital are under the economic constraint of serving consumers. But public officials to whom resources are transferred are largely relieved of this constraint. In fact, since they receive resources at *zero cost to themselves*, they are able to treat these as "free goods."

Even when public officials are not corrupt, they are human. Relief from the economic constraint of serving consumers enables public officials to substitute their own priorities, however well intentioned, for those of consumers. Since economic development is often confused with industrialization, the result has been the diversion of resources from the satisfaction of consumer desires to use in capital-intensive projects even when there is little or no demand for their products or the products can be bought more cheaply elsewhere. This has included such projects as the construction of steel mills, hydroelectric dams, modern airports, double-deck suspension bridges for nonexistent railroads, giant oil refineries in countries that neither produce nor refine oil, giant crop-storage depots that have never been used because their locations are not accessible to local farmers, and numerous other "white elephants" (Ayittey, 1988; Ayittey, 1987, p. 210-11; Fitzgerald, pp. 284-85; Bauer, 1988, p. 5; Chapman).

Although such projects are undertaken in the name of industrialization, they do not contribute to economic growth. They are the modern counterparts of the Egyptian pyramids: colossal, impressive, and a wasteful drain on the resources of the country. As a result, foreign "aid" has historically led to a "notable increase in the amount of capital devoted to economically wasteful projects" (Fleming, pp. 78-79. And Bauer and Yamey, 1980, p. 61; Friedman, pp. 205-06).

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4. Political Problems of Foreign "Aid"

There are also serious political problems endemic in foreign "aid" programs.

a. **Centralization**. Foreign "aid," the transfer of resources from government to government, inevitably means the centralization of governmental power over the economic affairs of the recipient country. Aside from the potential for serious restrictions on individual freedom that this centralization involves, there are other untoward ramifications.

One of these is the diversion of activity from economic production to political distribution. As Bauer has put it (1978, p. 162)

> The question of who runs the government has become paramount in many Third World countries and is especially so in multiracial societies, like those of much of Asia and Africa. In such a situation the energies and resources of people, particularly the most ambitious and energetic, are diverted from economic activity to political life, partly from choice and partly from necessity. Foreign aid has contributed substantially to the politicization of life in the Third World. It augments the resources of governments as compared to the private sector, and the criteria of allocation tend to favor governments trying to establish state controls.

This diversion of energies into political activity is especially pernicious since what is not produced cannot be consumed. Thus, in contrast to market relations in which the economic output expands to the benefit of everyone, the politicization of economic life, by reducing the amount of energy devoted to production, reduces overall economic output relative to what it would be in the absence of politicization. Moreover, the conflicts generated by the political process of distribution must likewise retard production. The result is that foreign "aid" transforms the economic process of production on the market with its corollary, *voluntary exchange for mutual benefit*, into the political process of transferring wealth from politically weak to politically powerful groups, with its corollary of coerced "exchange" where one group benefits itself *at the expense of another*. It transforms a process that is inherently positive-sum, where the sum of the gains exceeds the sum of the losses, into a process that is inherently negative-sum, where the sum of the losses exceeds the sum of the gains.

b. **Environment**. Further, it is a mistake to regard "aid" as a net addition to the capital stock of a country. The expansion of government control over the economy reduces "pressure on the government to maintain an environment favorable to private enterprise." Since this discourages private investment, domestic and foreign, the result is often a net reduction in the amount of capital available (Friedman, p. 207).

This is especially true of multilateral "aid." The U.N.'s New International Economic Order has discouraged private investment by encouraging LDCs to adopt policies that militate against protection of private property. It has, for example, referred to nationalization as an "inalienable right." And the International Development Association (organized by the World Bank in 1960) encouraged large-scale borrowing by making "soft" or interest-free loans readily available to LDC governments.

Private banks were encouraged to make loans to LDCs by the availability of export credit insurance provided by government organizations such as the U.S. Export-Import Bank (Ayittey, 1984, p. 32; Fitzgerald, p. 284), by less formal government pressures and assurances about the soundness of the loans (Meigs, p. 114), and by the inflationary macro-economic policies of the U.S. government during the 1970s which, by reducing real interest rates, encouraged lending, and especially foreign lending, by U.S. banks (Mussa, p. 82). The result was that many LDCs began systematically substituting foreign *borrowing* for foreign *investment*. Private investment in the LDCs, as we have already noted, over the last three decades has fallen from 40 percent to less than 16 percent of total transfers from the First to the Third World.

This means that far from additional "aid" being necessary to relieve the foreign debt burden of the Third World, it is, in fact, foreign "aid" that bears a large responsibility for the foreign debt crisis. It can hardly be a coincidence that the debt crisis emerged promptly following the adoption of the New International Economic Order in 1974. For example, between 1975-80 Argentina's debt rose by over 300 percent, Brazil's by 250 percent, and Mexico's by 280 percent (Bartlett, p. 207).

The "capital flight" that has bedeviled so many Third World nations is in part due to the hostile en-

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vironment for private investment, and in part due to rampant corruption resulting from the politicization of economic life. But both are at least in part a consequence of foreign "aid." As George Ayittey has observed (1988), "More than $10 billion in capital leaves Africa every year. That is more than comes in as foreign aid. Much of this capital is booty, illegally shipped abroad by the ruling elites." Zaire's President Mobutu places more money in his personal Swiss bank account each year than the $45 million a year that the U.S. contributes in "aid" to Zaire (Ayittey, 1986a). And economist James Henry observed that "More than half the money borrowed by Mexico, Venezuela and Argentina during the last decade has effectively flowed right back out the door, often the same year or even month it flowed in" (in Ayittey, 1986b).

In short, there would be neither a Third World "debt crisis" nor a capital flight problem were the domestic environments in the LDCs more receptive to private investment. But since foreign "aid" not only removes the pressure on governments to foster such an environment, but also contributes to the politicization of Third World economies, foreign "aid" makes it neither necessary nor, in some cases, even possible to create such an environment.

c. **Incentives**. Related to the foregoing is the problem of the political incentives created by foreign "aid." Foreign "aid" is a multi-billion dollar industry. The net transfer of resources, bilateral and multilateral, public and private, from the more-developed countries to the less-developed countries has been placed at as much as $80 billion a year (Eberstadt, 1985a, p. 28). The U.S. spent over $12 billion on bilateral "aid" in 1985 alone (U.S. Department of Commerce, 1987, p. 766, Table 1339). In donor countries the result is large foreign "aid" bureaucracies with vested interests in maintaining the programs. In the recipient countries, the result is often unscrupulous rulers who all too often divert the money into their own and their cronies' pockets. It is no accident that some of the world's wealthiest individuals are or were rulers of some of the world's poorest countries. The Marcos, Duvalier, and Mobutu fortunes are only the tip of the iceberg.

It is important to understand that foreign "aid" "goes not to the pitiable figures we see on aid posters or in aid advertisements," Bauer and Yamey point out (1983, p. 125), "it goes to their rulers." Dispensing "aid" on the basis of need, which has become increasingly the case with multilateral programs, especially after the adoption of the New International Economic Order, as well as with bilateral "aid," following the passage of the "Reforms of '73," creates a perverse incentive: it provides Third World rulers with an incentive to perpetuate the poverty of their subjects.

There is little doubt that this is the case. Throughout the Third World one finds entire occupations being outlawed, and hardworking and industrious groups being subjected to brutal treatment, ranging from discrimination to exclusion from choice occupations to outright slaughter. An example of the former is Mobutu's expulsion of traders or middlemen that promptly reduced Zaire's per capita income, thereby qualifying Zaire, i.e., President Mobutu, for increased "aid" (Bauer and Yamey, 1983, p. 125). Examples of the latter include the brutal mistreatment of economically wealthy but politically weak groups in Algeria, Burma, Burundi, Egypt, Ethiopia, Ghana, Indonesia, Iraq, Kenya, Malaysia, Nigeria, Sri Lanka, Tanzania, Uganda, Zaire, and Zambia. "Because the victims' incomes were above the national average," says Krauss (p. 158), "their maltreatment promptly reduced average incomes and thereby widened income differences between these countries and the West." The result is that the self-inflicted economic deterioration qualified these countries for additional "aid."

Since "bureaucratic success" is measured by the size of an agency's budget, or, in the case of transfer organizations, by the volume of loans dispensed, these agencies have far more incentive to increase the amount of wealth transferred than to be concerned about how it is used (Sowell, p. 238; Manhard, pp. 212-13). Both the World Bank and the International Development Association are examples. The Bank's authorized capital increased from an initial $12 billion in 1944 to $86.4 billion in 1981. The International Development Association's increased from an initial $916 million in 1960 to $12 billion in 1981.

Some observers, however, have defended World Bank and International Development Association activities. The Brandt Commission reports (1980, p. 226) that "the overwhelming proportion of aid money has been usefully spent" and that it has "done much to diminish hardships in

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low-income countries." And Robert Ayres (pp. 15, 37, 63) argues that while there have been difficulties, World Bank and International Development Association loans have benefited the world's poor and that any curtailment would cause "societies in transition" to suffer. Yet one finds little concrete evidence to support these conclusions. On the contrary, there are numerous references to such things as "benefit deflections" (pp. 103, 124, 193) and "shortfalls" (p. 126). Ayres states that the World Bank always "seeks assurances from the recipient country" about the way the loan will be used, but then observes that "the Bank can obtain all of the assurances it wants, but it is up to the recipient country to make good on them, and the Bank does not always possess the leverage or supervisory capability for seeing to this" (pp. 43-44).

Elsewhere Ayres says that "the political elite in most recipient countries does not care about the poor majority. Where there is the absence of political will and commitment it is difficult for the Bank to be effective" (p. 57). He acknowledges that "In several of the countries many of the housing units in the Bank-financed projects had in fact been occupied by families with incomes higher than originally intended by the Bank. In some instances . . . it reflected a deliberate decision by the government" (p. 193). He notes that "World Bank resources could free recipient-country resources for the pursuit of other projects" (p. 216). When the Bank financed $23 million for a rural development project and $23.5 million for educational development, Ayres (p. 217) notes that "The Brazilian government has $46.5 million to spend on other, including non-developmental concerns. Seen in this light, Bank resources financed not only the projects that had been appraised and approved but also projects, perhaps even perverse ones, that had not. Even the approved projects may have entailed side benefits going not to the poor but to those allied with the political regime." And finally, Ayres acknowledges that some bank officials "admitted that they cooked up the evidence" (p. 108).

In short, foreign "aid" generates incentives which, by their nature, militate against economic growth and development.

5. Conclusion

Far from stimulating growth and development as was its original intention, foreign "aid" actually retards development and perpetuates, even exacerbates, poverty. While reforms might reduce some of the damage caused by the program, the real causes for the failure of foreign "aid" lie in the nature of the program.

Foreign "aid" retards the development of those attitudes—thrift, industry, and self-reliance—that are essential for economic growth and development; it blurs lines of investment and distorts cost data, resulting in a massive waste of scarce resources; it politicizes life in the recipient country, thereby diverting energy from economic to political activities; it reduces pressure on the recipient governments to maintain an environment favorable to private enterprise, thereby discouraging private investment; and by providing money to governments on the basis of the poverty of its subjects, it gives the ruling elites in the recipient countries a vested interest in policies that impede or prevent economic development.

Moreover, since there are large, politically powerful foreign "aid" bureaucracies in both donor and recipient countries with vested interests in maintaining or even expanding the size of the "aid" programs, it is highly unlikely that effective reforms, even were that possible, could be implemented. For example, the occasional proposals made to reform the U.S. "aid" programs to Micronesia and elsewhere have never been seriously considered (Fitzgerald, pp. 289-90). Certainly one reason for the plethora of nearly 500 different "welfare" programs available there is that it is a beautiful island chain that is a perfect vacation spot. And once a bureaucrat's agency has a program there, he naturally finds that he must visit the island chain in order to see that his agency's program is being operated properly. Since the visit is in the line of duty it is, of course, at taxpayer expense (see, e.g., Manhard, pp. 212-13).

Finally, many maintain that the more fortunate have a moral obligation to help those who are less fortunate. However this may be, foreign "aid" cannot be justified on such grounds for, as already alluded to, it does not transfer wealth from the more to the less fortunate. True, it transfers wealth from rich to poor nations, but this is hardly the same as transferring wealth from rich to poor individuals. Many of the taxpayers in the rich nations are themselves either poor or middle-income wage earners; many of the recipients in the poor nations are the economic elite. As Ayittey (1986a, p. 9) points out,

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"Aid, rather incongruously, often turns out to be a tax on the poor people in rich nations for distribution to the rich people in poor nations." Thus, foreign "aid" is actually a program for transferring wealth upward, from the poor to the rich.

Foreign "aid" is not "aid" at all; it is foreign "harm," and the sooner this is recognized the better. The capitalist countries of the West developed without "aid," as did Japan. The most rapidly developing Third World countries—Taiwan, Hong Kong, Singapore, and South Korea—received little "aid" or began developing only after massive amounts of "aid" were discontinued. What is needed, as Melvyn Krauss perceptively points out (p. 109), is not the transfer of wealth but the transfer of prosperity, i.e., the "transfer of the ability to produce adequate amounts of real income." Since the public sector can only transfer wealth while the private sector produces wealth, "the transfer of prosperity," Krauss points out, "depends greatly on private sector participation."

As Peter Bauer has written (1972, pp. 97-98): "If all conditions for development other than capital are present, capital will soon be generated locally or will be available . . . from abroad. . . . If, however, the conditions for development are not present, then aid . . . will be necessarily unproductive and therefore ineffective. Thus, if the mainsprings of development are present, material progress will occur even without foreign aid. If they are absent, it will not occur even with aid." □

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Progressivism Comes to Houston

by J. Brian Phillips

During the Progressive Era of the early 20th century the nation's first zoning ordinances began to appear. Public control of private property was a popular cause at the time, and land-use restrictions were frequently used to achieve this end. During the Progressive Era, and in the years since, only one major American city did not enact some form of zoning. That city is Houston.

While other cities have imposed severe restrictions on property use—through zoning, strict building codes, rent control, and so on—Houston has generally respected property rights. This, however, is changing, as a growing number of restrictions are imposed on private property. As the 20th century comes to a close, Houston is entering its own Progressive Era.

The Zoning Issue in Houston

Zoning is not a new issue in Houston. No less than four times in this century, some form of zoning has been proposed for the city.

In 1912, at the height of Progressivism, a landscape architect from Massachusetts was hired to develop a zoning plan for Houston. This plan was largely ignored until 1922, when the city established its first planning commission. In 1929 a zoning plan was formally presented to the City Council, but real estate interests opposed the plan.

In 1936, several city leaders suggested that the plan of 1929 be implemented. Over the next seven years, neighborhood meetings were used to gain support for the proposal. Realtors again opposed the plan, and were joined by the owners of property in Houston's older residential neighborhoods. The zoning proposal was submitted to voters in a non-binding referendum in 1948. It was rejected by a two-to-one margin, and plans for zoning were temporarily dropped.

Not easily discouraged, zoning advocates raised the issue again in 1957. Five years later, voters once more went to the polls to cast their ballots on zoning. Though zoning was again rejected, the margin of defeat was much narrower.

The most recent push for zoning began in earnest in the early 1980s. Public opinion is now much more supportive of property use controls. Through the slow erosion of property rights, Houston is being prepared for a comprehensive zoning plan.

During the past decade the city has passed or considered at least eight ordinances aimed at controlling private property. In other cities, these ordinances would have been included in a comprehensive zoning ordinance. In Houston, they represent what some critics call a "backdoor" approach to zoning. In most cases, city officials have aimed their restrictions at unpopular businesses and development practices.

Often regarded as the billboard capital of America, Houston enacted an ordinance in 1980 that severely restricts the size and location of billboards and outdoor signs. Mayor Kathy Whitmire and a majority of the City Council support the restrictions, as does one of the city's major newspapers, *The Houston Post.*

Another backdoor approach to zoning during the past decade has been increased regulation of sexually oriented businesses. As with billboards,

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the absence of zoning and the booming economy of the late 1970s and early 1980s allowed such businesses to proliferate. The city has responded with a growing number of ordinances regulating the location and operation of these businesses. The public has been very supportive of the controls.

To many Houstonians, including some zoning opponents, controls on billboards and sexually oriented businesses are unrelated to zoning. Both ordinances have received enormous public support, yet zoning—in its traditional form—remains relatively unpopular.

However, the growing acceptance of controls on private property is paving the way for comprehensive zoning. Both intellectually and politically, attitudes toward zoning are changing.

Advocates of Zoning

Over the years, the arguments put forth by zoning advocates have changed very little. What has changed is the public's acceptance of those arguments, many of which have been economic. Zoning supposedly protects property values by prohibiting "undesirable" land uses. An article in *The Houston Post* in 1929 argued that "specialization by districts [zoning] increases the efficiency and value of real estate."[1]

More recently, Houston architect, planner, and urban designer Peter Brown and City Planning Commission member Kay Crooker wrote that zoning "gives investors and developers confidence in the economic strength and future potential of an area."[2] Zoning, its advocates insist, is essential to long-term economic growth.

Ironically, while some assert that zoning is essential for attracting investors to Houston, others are denouncing those same investors. "There are investors in Toronto and Mexico City, Denver and Pittsburgh," wrote *Post* columnist (now Editor) Lynn Ashby in 1982, "who don't give a hoot about living conditions in our town, but make a bundle off our problems."[3] We need zoning, Ashby says, to control these "greedy absentee landlords."

While the advocates of zoning are unsure whether restrictions on property are necessary to attract or to control investors, they agree that zoning will protect the city's "quality of life." In a 1960 report, the Houston Commission on Zoning stated that "we must now zone ourselves so that our children may live in a city that is not chaotic." Twenty years later, Lynn Ashby wrote: "[W]e are probably creating an unlivable city for our grandchildren. . . ."[4]

Like statists of every variety, advocates of zoning seek to impose their vision of the "good life" on everyone. Declaring the free market "chaotic" and "unlivable," they insist that they know the solution and can make the world a better place for everyone. Of course, there is a cost for this utopia: freedom.

Brown and Crooker wrote: "Perhaps one of the reasons some politicians and developers in Houston have traditionally opposed city planning is its very democratic nature—it redistributes some of the power and decision-making authority and invites public debate on important issues."[5]

The "important issues" are the uses of private property. To "redistribute some of the power and decision-making authority" means to take from those who have earned and produced and to give to those have done neither. The advocates of zoning seek to use political power—physical force—to redistribute economic power—production.

Planning and Zoning

In Houston, zoning is regarded as a four-letter word. Some call it "that Z-word." Like the early 20th century Progressives, who advocated socialism yet wanted to avoid the stigma attached to that word, pro-zoning forces try to hide their true intentions. They generally prefer the term "planning."

This euphemism has been used to great advantage by zoning advocates, who frequently cite the many advantages of master-planned communities. Such developments abound in the Houston area. Deed restrictions—i.e., voluntary contractual agreements—control property use in these communities. The popularity of master-planned communities is often used to justify city-wide planning.[6] For years, the city's Planning Department, Mayor, and City Council have called for increased city planning. Now in the process of developing a comprehensive city plan, Planning Director Efraim Garcia has said that the proposed system will be"informational" rather than mandatory. In other words, the city will "suggest" land uses, rather than require them.

Many see the planning process as a compromise between zoning and laissez-faire, between government control and private control. Groups such as

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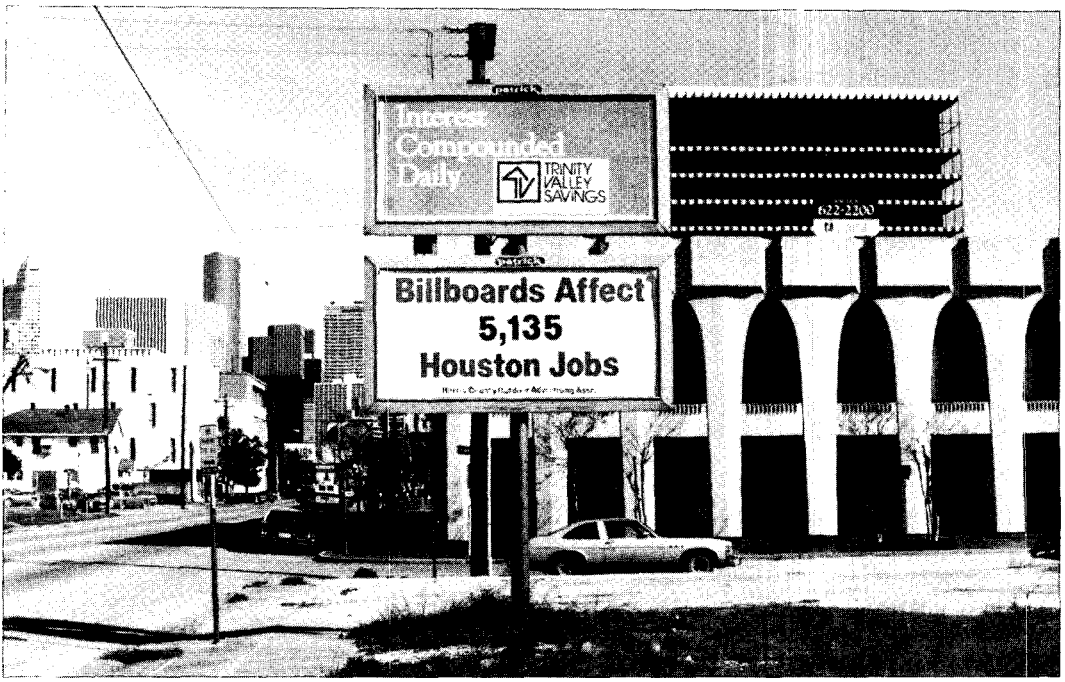

Houston billboard companies present their case to the public.

the Houston Apartment Association—which has vehemently opposed zoning in the past—endorse the planning process.

Planning differs from zoning, its supporters argue, because planning does not have the power of law, i.e., a developer cannot be prevented from deviating from the plan. But recent experience demonstrates that that can change. Until recently, the Houston City Planning Commission had no enforcement powers. Today, the commission can impose fines to penalize violators of land-use ordinances. Once a comprehensive plan is accepted, implementing zoning will be merely a matter of giving the Planning Commission further enforcement powers.

A Sign of the Times

Following the passage of a sign and billboard ordinance in 1980, the outdoor advertising industry took the matter to the courts. The ordinance eventually was upheld by the Texas Supreme Court.

One of the provisions of the ordinance allowed for the creation of "scenic or historic districts" in which outdoor signs are severely restricted. The City Council has created numerous districts around the city, and civic groups have begun presenting petitions to the council calling for similar status in their areas.

Two of the city's largest developers—Gerald Hines and Kenneth Schnitzer, support controls on billboards. In 1984 Schnitzer sent 500 letters to civic and trade organizations trying to raise support for legislation aimed at "visual pollution" in Houston. Hines is on the advisory board of Billboards Limited, a local anti-billboard group. "Damn it, we've got to clean this city up," Schnitzer once said in explaining why he supports such controls.[7] In the past, businessmen and developers have been the primary defenders of property rights in Houston. Today, this is no longer true. Men like Hines and Schnitzer, and business organizations like the Chamber of Commerce and the Houston Economic Development Council (which Schnitzer founded), openly endorse greater government controls on private property.

After the Texas Supreme Court upheld the Houston ordinance, local billboard companies began using their signs to present their case to the public. "Billboards Affect 5,135 Houston Jobs," declared one. "Billboards Protect Freedom of Speech for Social and Political Messages," said another. But these signs have had little impact, largely because the public and the industry agree on one basic premise: the right of the city to regulate the sign industry.

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In an Op-Ed article for *The Houston Post*, Rob Schmerler, president of the Harris County Outdoor Advertising Association, wrote: "Outdoor advertisers are very much in favor of stringent regulation and control of billboards." He went on to write that the "industry agrees with the majority of Houston's sign regulations and is working toward fair compromises of our few differences."[8]

Having agreed that the city can regulate their industry, billboard companies can only squabble over the level of that regulation. This is like a banker agreeing to be robbed, and then complaining that the robber has taken too much. Once a principle is accepted, debating its application is pointless.

The Political Climate

Traditionally, advocacy of zoning meant political death in Houston. In recent years, as property controls become more acceptable, this has been changing.

For example, in 1987 five candidates for City Council supported zoning, in one form or another. A candidate for mayor in 1989 ran on a pro-zoning platform. And the city's comptroller once suggested that zoning might be appropriate to control the city's traffic problems.

Planning Director Garcia has said that the land-use controls adopted by Houston differ from traditional zoning. Traditional zoning tells developers what they can and cannot do with their property. In Houston, Garcia says, land can be used for anything, "as long as it doesn't negatively impact adjoining parcels," a policy known as performance zoning.[9] Of course, what is considered a "negative impact" depends upon one's tastes and values. It is frequently an esthetic issue, and always a moral one. When the government is permitted to determine values—whether moral or esthetic—the values of some are forced upon others.

The growth of government is frequently a gradual process, as new controls are enacted to try to correct the problems caused by previous controls. The issue of zoning in Houston is an example of this. While land use has remained relatively free in Houston, much of the supporting infrastructure—such as water, sewage, and roads—is controlled by the city. Today, the city's inability to plan future infrastructure needs is one of its primary arguments in favor of developing the planning process. In a totally free society, where water, sewage, and roads would be provided by the private sector, the city would have no such concern.

The Outlook

Houston is a city ripe for zoning. The public readily accepts controls on land use, and the city soon will have a comprehensive plan in place. As more politicians and citizens openly call for zoning, it is only a matter of time before that demand is satisfied.

Houston has virtually no organized intellectual defense of property rights. Even those most directly affected by the city's growing list of restrictions—the billboard companies and developers—support land-use controls.

The victims of land-use controls are sanctioning their own enslavement. Through appeasement and compromise, they are allowing the city to dispose of their achievements. They grant the city the power to control them, then timidly complain that the controls are excessive. By then, it is too late.□

1. B. C. Burchfield, "Thawing Houston Real Estate Market," *The Houston Post*, December 29, 1929.
2. Peter Brown and Kay Crooker, "We've Strayed Far from City Planning," *The Houston Post*, April 17, 1988.
3. Lynn Ashby, "Houston Overdue for Sensible Plan," *The Houston Post*, June 3, 1982.
4. Lynn Ashby, "Boom Town," *The Houston Post*, March 4, 1980.
5. Brown and Crooker.
6. For a fuller discussion of master-planned communities, see my article "Private Cities" in *The Freeman*, March 1989.
7. Lisa Paikowski, "'Visual Pollution' Target of Development Council," *The Houston Post*, December 9, 1984.
8. Rob Schmerler, "We Need to Look at What's Right with Billboards," *The Houston Post*, April 27, 1987.
9. Bob Sablatura, "Council Vote Ignites Zoning Battle," *Houston Business Journal*, September 22, 1986.

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The Flag and Freedom: Which Should We Protect?

by Douglas Mataconis

The recent Supreme Court decision overturning state and Federal laws that made it a crime to burn or desecrate the American flag has created a storm of controversy. By now, the arguments against the decision have become familiar: by making it legal for the flag to be burnt or desecrated, it is argued, we are denigrating the banner under which Americans have fought and died for over 200 years. Furthermore, it is held, people who burn or desecrate the flag are attacking America as a nation and do not deserve the protection of the Constitution of the nation they are implicitly rejecting.

However, the reaction to the decision has focused more on emotional appeals than rational analyses of the issues at hand. We must not allow personal esthetic or emotional attitudes about flag burning to obscure the essential question: which should we be protecting, the flag of the United States or the principles of individual liberty, responsibility, and self-government upon which the United States was founded and which the flag is supposed to symbolize?

In adopting the position of the opponents of the Supreme Court decision, one would have to accept the seemingly contradictory idea that in order to protect the symbol of a nation founded on individual liberty, one must restrict individual liberty. Taking this position also leads one into dangerous territory in relation to other areas of action or thought and the effect that they might have on the rest of society. After all, if flag burning can be banned because a majority of the public are offended by an attack on what they believe to be a sacred symbol, then why not extend the ban into other areas where an individual's actions might be offensive to others? If we ban flag burning, then why not ban movies or books that depict in an offensive way religious figures or other subjects considered to be sacred? Why not ban magazines, films, or groups that offend the sensibilities of women, blacks, Jews, or any other minority group?

A person who opposes flag burning may argue that he would not extend his logic as far as that in the above examples. But the reasoning behind these examples and that behind flag burning are of the same majoritarian parentage: the belief that if a sufficiently large number of people find an activity offensive then they can use the coercive power of the state to regulate or, preferably, to ban that activity.

The problem, then, with taking the position that the flag should be protected even at the expense of individual liberty is not that flag burning or any other activity deemed to be offensive has some sort of redeeming value, or that symbols such as the flag are unimportant, but that in banning these activities, one is accepting a principle that is ultimately destructive of a free society. By accepting this principle, we are allowing for the creation of a society wherein appropriate expressions of patriotism, appropriate forms of artistic expression, and appropriate activities are decided by a process of majority rule that, rather than minimizing conflict in society, heightens it to a dangerous degree.

Mr. Mataconis is a senior at Rutgers University majoring in political science.

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A preferable position would be to assert that while the flag is an important American symbol, it is more important that we protect principles such as liberty, private property, freedom of speech, and freedom of thought that have been at the very core of the American system, even if this means that we must tolerate activities that offend us. In taking this position, one would not have to assert that these activities have any redeeming value or recommend that others engage in them, but simply that toleration of such acts is the price that must be paid for living in a free society. Most important, it would not be left up to the state or an ever-shifting majority to decide what is offensive and whether something that is deemed offensive should be banned. This would minimize the conflicts over such sensitive areas as religious belief and artistic expression.

It is undeniable that to most Americans, including those who value liberty, flag burning is offensive. We do not like to see someone set fire to a banner that is a symbol of freedom, especially when that person rejects the freedom the flag symbolizes. However, we must not allow our love for the flag-as-symbol to blind us to the reality that a law banning flag burning or desecration would be as much a restriction on individual liberty as would be a law banning publication of a book that seems to denigrate a religion. Neither must we forget that the moment one concedes that certain activities should be banned simply because they offend other people, one is allowing for the creation of an environment in which no one is safe to do what he might, lest he offend someone and bring down on him the heavy hand of the government.

The answer to the question, "Which should we protect, freedom or the flag?" is that we should protect freedom above all else. In denying an individual the right to burn his own flag in protest or to engage in any number of offensive but otherwise harmless activities, we are denigrating the principles that the flag is supposed to symbolize and are doing a disservice to the patriots who established this nation not to protect a flag but to enshrine freedom. □

Readers' Forum

To the Editors:

David Hood's piece on the Century Association (it is not called a "club") in the October *Freeman* is well done. It gives me the occasion to mention something that all accounts have suppressed, namely, the disingenuous nature of the effort to get women into the Century. The argument advanced was that career women were deprived of the chance to make deals at the Century, where, presumably, the boys get together to carve up the world. Very good. But just see who were among the first "career girls" to make it into our boys' club in order to enhance their careers! There's Jacqueline Kennedy Onassis (who toys at publishing). There's Beverly Sills, retired queen of New York opera, not in need of deals. There's Shana Alexander and Toni Morrison (noted writers), Ellen V. Futter and Alice Ilchman (college presidents), Lily Auchincloss (foundation trustee), Margaret E. Mahoney (foundation president), and so on. The general outline of a disreputable *Putsch* is evident. A few revolutionaries wanted to capsize a club started by William Cullen Bryant and his friends, and they used dishonest arguments to carry the day. Beware the do-gooders!

WILLIAM F. RICKENBACKER
Francestown, New Hampshire

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A REVIEWER'S
NOTEBOOK

Africa's Hope

by John Chamberlain

The Reverend Ndabaningi Sithole is founder and president of the Zimbabwe African National Union, and he personally appointed Robert Mugabe, the present Prime Minister of Zimbabwe, to be his secretary general. He spent ten years without trial in prison under the Rhodesian government, using his time to write books and articles that have been translated into eight languages. His newest book, *The Secret of American Success: Africa's Great Hope* (Washington, D.C.: Gazaland Publishers, 235 pages, $15.95), is the product of a long sojourn in America, where he interviewed 500 people in 31 states. Currently he is the founder and chief executive officer of the Zimbabwe African Research Center in Washington, D.C.

Sithole is not only an indefatigable interviewer, he is also a prodigious reader of books by Americans. His footnotes spot everything from Thomas Jefferson to *The Closing of the American Mind*. But his new book stands four-square on the interviews. A sample of his quotations includes a trade unionist, James Stewart of Pittsburgh (who spoke of "the unintended consequences of free enterprise"), Jim Smith, a Dallas entrepreneur ("Free enterprise is the secret of American success."), Jim Parker, an advertiser from Chicago ("Free enterprise is the thing that makes America tick."), J. L. Carlton, a bus driver (Free enterprise is "our secret for everything we've achieved so far"), and Bill Stump, a Houston aerospace engineer ("We believe in free enterprise."). We can be sure that Sithole is accurate, but the question of the validity of his sample arises. He chose activists, not professors, for the interviews. And he obviously asked all of them the same leading question. One wonders how his listeners would have responded if he had opened his interviews with a request for opinions about the way we elect our Congressmen, or the way we put up with pressure groups, or the way we put Presidential choices for the Supreme Court through the mill. We might not seem so perfect if Sithole had not practically directed the interviewees.

Even so, nobody will seriously dispute the idea that free enterprise has been primarily responsible for American prosperity. Some of our teachers whose tenure dates to the Sixties may deride business, but it was John D. Rockefeller who subsidized the University of Chicago and Leland Stanford who supported Stanford. Sithole fills long pages of a big book with what individuals like the Rockefellers have done. He writes: "As one lands and takes off from the various American airports and sees scores and scores of American international and domestic airlines and hundreds and hundreds of small planes, one is impressed by the fact that all of these are privately owned, and not government owned. . . . the most powerful newspaper networks that circulate millions of copies daily . . . the TV and radio networks that inform and entertain millions of American adults, teenagers and little children are privately owned . . . property ownership by the American individual is unprecedented in the recorded history of mankind. . . . the question now arises, who controls the American mind? Is it the people themselves or the government?"

The answer to this question is surely obvious. The American regards government as his servant, not his master.

Sithole wants to see the American system transported almost totally to Africa. He lists 16 points of imitation for African governments to pick up. Some of the points are repetitive. Number Six ("Allow the profit motive to have full expres-

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sion.") is practically the same as Number Two ("Allow the people free enterprise, and they will succeed beyond belief"). But there are nuances in the repetitions.

Despite his schooling in British-owned Rhodesia, which was part of a commonwealth that has no written constitution, Sithole endorses his Point Seven ("Give Africa impartial written laws instead of the whims of her rulers").

Sithole is very Jeffersonian in his insistence that government be bound by a constitution. He would also protect inventors. "Governments," he says, "have never invented anything. Communities have never invented anything. It has always been the individual. Only the individual knows where his shoe pinches." In Point Twelve Sithole says, "Let everyone in Africa have his own dream, not another's dream. . . . In colonial days people were forced to become subjects of the colonial power; in present day Africa people are still forced to become Marxists, Marxist-Leninists, communists or socialists. In other words they are forced not to become themselves, but carbon copies of others."

Sithole has a most positive psychology. He hymns the virtues of education and hard work. If Africa will only adhere to his 16 points, he says, "success cannot fail to come her way."

It's all breath-taking as Sithole paints his picture of the future. But one goes from his book to the map on the wall. Sithole's own Zimbabwe is smack in the middle of a belt of African states that are more Marxist than not. Jonas Savimbi is trying to change Angola, but he could be forced into a disastrous compromise by the Portuguese-Marxist two-thirds of the country (including its big cities) that he hasn't taken over. Mozambique is supported in socialism by troops from Zimbabwe itself.

Elsewhere in Africa there are states that turn directly to Moscow. Ethiopia has provinces whose dissident people were calculatedly starved to death by a dictator who used donated foodstuffs to feed his friends. Idi Amin was driven out of Uganda, but to the south of Uganda the tribesmen of Rwanda and Burundi cheerfully slaughter each other. Tanzania is still struggling to feed itself with agricultural socialism. Libya wants to lord it over Chad and has built the facilities to make poison gas. Kenya is not the free place is was in Kenyatta's time.

There is diversity in Africa, all right, but a diversity that includes thousands of mercenaries under the control of Fidel Castro is not the diversity that the Reverend Sithole wants.

The "great hope" for Africa is that Moscow's Gorbachev may get tired of paying Castro's bills. But that hasn't happened yet. □

OPENING UP THE SOVIET UNION

by Jerry F. Hough

The Brookings Institution, 1775 Massachusetts Avenue NW, Washington, DC 20036-2188 • 1988 • 100 pages • $8.95 paper

Reviewed by Russell Shannon

During the "blockbuster" film summer of 1989, there was one particularly astonishing film shown on American screens called *Little Vera*. Unlike such mythical and adventurous films as *Batman* and *Indiana Jones*, this film showed the stark reality of life in the contemporary Soviet Union, replete with alcoholism, boredom, and air pollution. But what made the film especially remarkable was the fact that it was produced in the Soviet Union by Russian film makers—strong testimony to the success of Mikhail Gorbachev's policy of glasnost (openness).

Yet the film makes one wonder if the other element of Gorbachev's reforms, perestroika (restructuring), has any chance of success. Furthermore, how should we Americans react to the dramatic changes that are now being promoted in the land we have long thought of as our archenemy?

These two questions are the subject of this fine little book by Jerry Hough, a professor of political science at Duke University. Hough has read widely in current Soviet publications and conducted numerous personal interviews, so he is both well informed and able to provide some unique insights.

After taking a brief look at the present situation regarding the Soviet Union and its relationship to the outer world, Hough examines internal forces both retarding and promoting perestroika. In the third chapter, he details the steps Gorbachev has taken over the past decade or so to obtain and consolidate his power. So extensive have been his efforts and so wide-ranging his success, involving both the Politburo and the ruling Central Committee, that one is left strongly persuaded to share Hough's conviction that Gorbachev is not a man we can lightly dismiss. Hough then examines relations between the Soviet Union and the rest of the world,

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first explaining the new foreign economic policy and then considering how both American business people and our government should respond.

In Hough's view, perhaps the greatest fault of the Soviet economy—and yet the one least recognized—is its policy of economic protectionism. As Hough points out, this policy does not involve the simple tariffs and quotas which nations such as the United States use to deter foreign trade; rather, the Soviet government monopolizes and restricts all trade. This bent toward autarky is a legacy of Lenin, reinforced by the anti-Western attitude of Stalin and his men. As a result, Soviet producers lacked the benefit of foreign competition; in Hough's words, "protectionist policies are as disastrous for economic performance in the East as in the West."

Soviet economists recognize the problem. Hough quotes one of them, Anatolii Dinkevitch, as stating that "economic autarky is, as history shows, a course without a future." But can the Soviet economy change? Will bureaucrats, content in their positions of power and perquisites, permit it? Even more important, will the Soviet people challenge change?

Although, as Hough notes, Marx is part of the panorama of Western ideas which many Soviet leaders spurn, it is Marx's view of capitalism that has held the Soviet economy in thrall. Readers familiar with Marx's works know that he particularly condemned capitalism for two alleged failings: first, because capital accumulation supposedly destroyed jobs and created a "reserve army" of unemployed; and second, the standard of living for workers supposedly was pressed down to the subsistence level by capitalist greed. To overcome these presumed flaws, the Soviet rulers have assured jobs for all workers and have subsidized the costs of food, housing, medicine, and other basic needs.

If the Soviet economy in its drive for efficiency does actually become more capitalistic, then workers must face the prospect of losing their jobs if they are not up to snuff or if market conditions change. And at least initially, the prices of food and shelter will have to rise to approach their true costs of production. So resistance is likely.

But Hough points out that Gorbachev is handling this resistance in adroit fashion. That's where glasnost fits in: the Soviet people have more freedom of expression and movement, so perhaps they will be willing to tolerate some measure of economic insecurity. (Alas, this is a lesson the Chinese Communist leaders haven't learned. While it had appeared that reform of the Chinese economy was outstripping that of the Soviet Union, the Chinese regime has refused to grant other freedoms. The frustrations of the Chinese people and the determination of the rulers met head-on in Tiananmen Square last spring; the Beijing massacre was the tragic result.)

If economic reform does occur in the Soviet Union and the cold war continues to thaw, how should we react? As for business people considering joint ventures in the Soviet Union, Hough argues that they need have little to fear regarding expropriation, since that would be counterproductive for the reform efforts. But there is still a lot of uncertainty and red tape to deal with. Yet Hough argues that there will be at least some American producers so anxious to serve the vast Soviet market and so eager to gain a foothold from which to make future ventures that they will be willing to overcome such obstacles.

Should we permit them to do so? Hough notes that in recent years we have learned that "government control and regulation are not necessarily the answer to every problem," so there has been a trend toward domestic deregulation. He suggests that such an approach is just as applicable to foreign as it is to domestic policy. He notes that economic sanctions and embargoes against foreign countries have usually "accomplished nothing productive": Castro's Cuba is surely witness to that statement.

Perhaps Hough best captures what he believes should be our approach to perestroika by mentioning a story by Aesop which is as charming as *Little Vera* is chilling. The story involves a contest between the North Wind and the Sun to see who could get a man to remove his coat. "The North Wind blew and blew, and the man clutched his coat more tightly around himself. The Sun simply came out from behind a cloud—and won, for the man took off his coat by himself."

Hough believes that American firms operating in the Soviet Union will provide irresistible evidence of the superiority of our system. More than anything else, the examples we furnish might assure the success of perestroika. □

Professor Shannon teaches in the Economics Department at Clemson University.

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Join us in the pursuit of an ideal.

The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—Leonard E. Read

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—HANS F. SENNHOLZ

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